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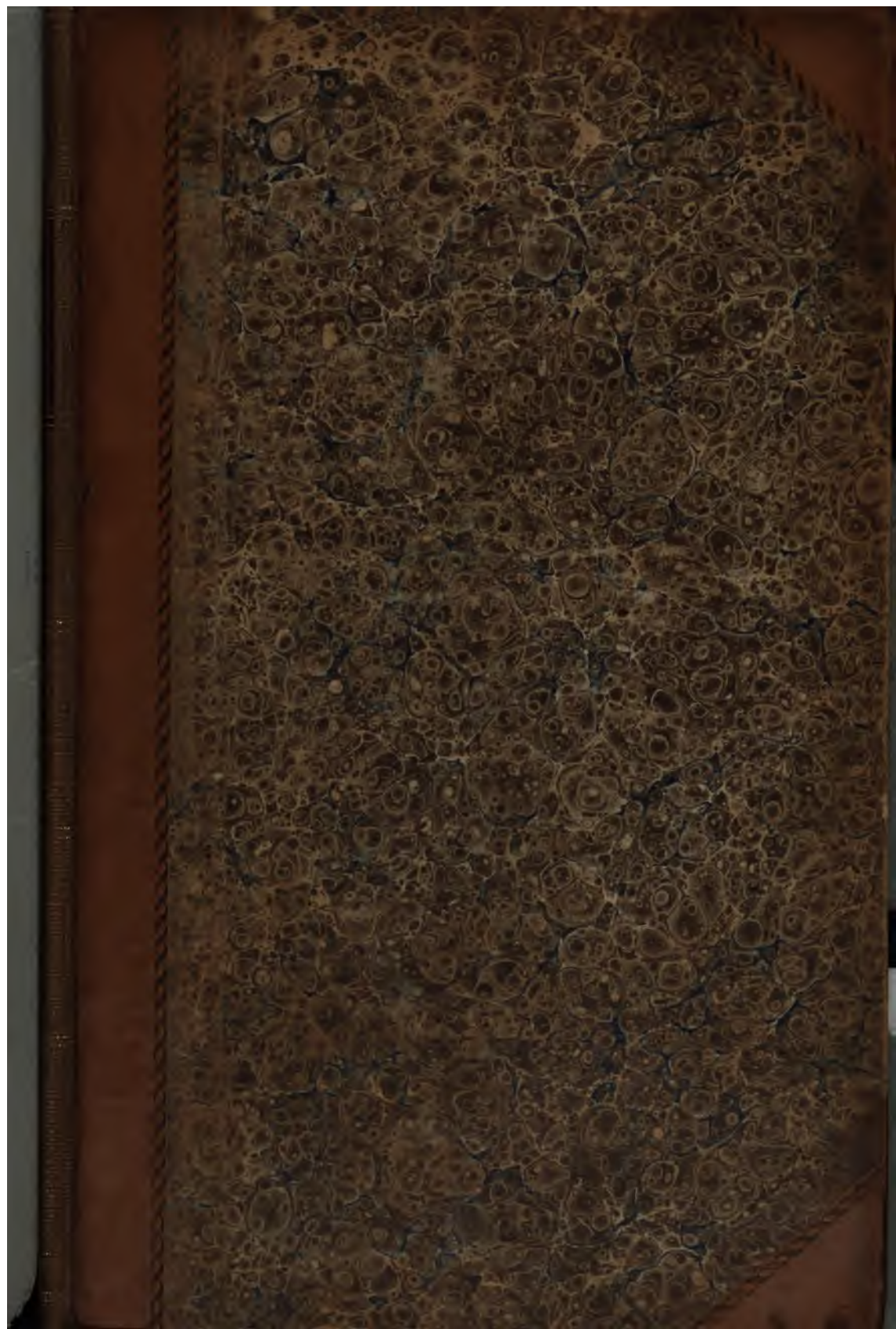
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**A LETTER**

TO THE

**RIGHT. HON. GEORGE CANNING,**

TO EXPLAIN

IN WHAT MANNER THE INDUSTRY OF THE PEOPLE,  
AND THE PRODUCTIONS OF THE COUNTRY,

ARE CONNECTED WITH, AND INFLUENCED BY,

INTERNAL BILLS OF EXCHANGE,  
COUNTRY BANK NOTES, AND COUNTRY BANKERS,  
BANK OF ENGLAND NOTES, AND BRANCH BANKS.

WRITTEN

TO EXPOSE SOME OF THE PREVAILING FALLACIES ON  
THESE SUBJECTS;

AND TO PROVE,

THAT THE LAWS PASSED UNDER THE INFLUENCE OF THOSE FAL-  
LACIES, WILL GREATLY OBSTRUCT AND INJURE THE OPERATIONS  
OF INDUSTRY; AND HAVE NO POWER TO EFFECT THE PURPOSE  
DESIGNED BY THEM.

WITH A POSTSCRIPT

ON THE TENDENCY OF THE WAGES OF LABOUR IN ENGLAND  
AND IRELAND TO BECOME EQUAL,

AND THE CONSEQUENCES RESULTING THEREFROM EXEMPLIFIED.

---

BY

**HENRY BURGESS, Esq.**

---

**London :**

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1826.

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## A LETTER, &c.

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*London, 10th October, 1826.*

SIR,

ON the 24th July, Mr. Huskisson honoured me by an interview on the subject of the unprecedented interruptions to industry and the distresses resulting therefrom, in the manufacturing and great trafficking parts of the country. He gave me the most patient attention, and manifested the most anxious desire to obtain information, and to devise a remedy for the evil. I fear that I did not succeed in changing, in the smallest degree, any opinions he had adopted, as to the cause of the existing disorder; and consequently I did not obtain his concurrence in the remedy necessary to be applied, in order to curtail the present, or to prevent future evil. The subject, however, is momentous, fallacies prevail; and so evident to my mind it appears that calamities will be protracted or speedily renewed, by continued perseverance in error, that I shall now endeavour, presumptuous as it may appear, to arouse your attention to an unprejudiced consideration of this important matter.

B

I presume to address you, because I am convinced that no person has had access to any of his majesty's ministers, who has possessed, in an equal degree, the means of making, from extended personal observations, an inquiry into the causes of the present miserable state of the active and industrious portion of the community. If you will honour me by reading the following observations, you will find, I believe, that the subject is presented to you in a different light from any in which you have hitherto viewed it.

---

#### INTRODUCTORY REMARKS.

Divers circumstances and indications may be observed in the political world at the present moment, which, I apprehend, will have a powerful tendency to prolong existing fallacies and to create fresh errors.

Money has, by various means, been so pushed out in London, *and drawn thither from the channels of industry*, as to become singularly abundant. This has had the effect of unlocking securities and commodities, and of giving to them a marketable value. Two months ago, the holders of these found that to convert them, at almost any price, into cash, was absolutely impracticable. By this operation of rendering money plentiful in London, not only have the securities of private persons, of public bodies, and of foreign states, been raised into marketable property, but commodities also, which were before stagnant in the docks and warehouses, and valueless, have now convertible prices. And thus have the owners of these goods become worth many millions sterling more than they were worth two



months ago, without an effort, or a single operation in industry; with the exchanges remaining (except insignificant vibrations) precisely the same; and with gold, bank-notes, and english circulating paper bearing at the same time, in this country and throughout Europe, one uniform relative value. Let us take care not to be deceived by these indications, but proceed to inquire, patiently and without prejudice, into the causes of our embarrassments—see if the prosperity has yet extended to the country, and ascertain if it be likely to be permanent.

London is the great money-change for the world; it is, however, merely a point of collection and distribution for commodities: excepting, to a small extent, silks and a few articles of luxury, none of the valuable productions of the nation are fabricated in London. It is to the country, therefore, we must look for the indication of any good arising out of the abundance of money in London. Has there been any effect from this, or any other cause, upon the energies of industry in the country, on which we can found a reasonable hope for renewed prosperity, to such an extent as will be the means of giving permanent employment to the destitute poor, and at wages adequate to their subsistence? I answer, *No*. During the last two months I have passed through most parts of England. I have traversed several times that important district from Leeds to Liverpool, and through the principal manufacturing parts, deliberately, to enable me to make accurate observations. I have conversed with great solicitude, and I believe with an unprejudiced mind, with export merchants, bankers, inland traders,



manufacturers, stamp distributors, and workmen; and the sum of my experience is, that there is but little probability of renewed industry, to the extent of affording full employment to the poor, and therefore but little chance of an advance in the prices of wages: that if wages do rise, it can only be by increased operations in manufactures and commerce: that if these be again augmented, it must be by the aid, not of the Bank of England only, but also of circulating credit and country bankers. In that case our money system will be again deranged; therefore, that the recent measures respecting the currency are unwise and impracticable, being either destructive to industry, or perfectly unavailing to accomplish the end designed.

In regard to the change for the better that we are now witnessing, all that can be said is, that a check has been given to any further decline. The producing powers of this country were in a state of rapid declension. That rapid declension has stopped. Let us now, therefore, adopt measures of precaution against future evil, and to promote returning good.

The number of unemployed workmen has diminished, but no change has taken place which will raise the profits of the masters, or that will universally or generally afford any profit upon stock engaged in manufactures. Consequently there will be no adequate employment for the poor: wages cannot rise, and the distress, though diminished, will continue to be great; and I affirm it as my opinion, that if measures are persisted in that ought to be abandoned or modified—if increased facilities of acquiring food and of disposing of the products of their industry be not afforded, to those classes

engaged in maturing the productions of the country, there will be a falling off, to the extent, at the lowest estimate, of 200 millions, in the valuable productions of the kingdom, during the five years commencing with the year 1826. Taking these productions to consist of two parts out of three mere labour, which, on the average, is about the mark, there will result a clear loss to the nation of 133 millions. This, if founded in truth, must be matter of deep interest to a statesman, and requires patient inquiry, and deliberate, anxious attention.

So many causes have operated to bring about the present lamentable and embarrassing state of things, that it is difficult, and perhaps unwise, to refer it principally to any one cause; but I purpose, in a very brief manner, to show that the evil of our condition is not owing to over-production, but that it is owing, mainly, to this.—That the paper circulation of this kingdom is an engine of tremendous power, the magnitude, force, and operation of which has never been examined and ascertained; therefore, that nobody has been aware to what degree the pursuits of industry were dependent upon circulating credit; and that parliament has consequently passed laws respecting the currency, deeply affecting the productive powers of the country, in ignorance of the manner in which the paper-currency is connected with, and inseparable from, the industry of the kingdom. That the members of the legislature have not at any time been sufficiently informed of the amount of the different portions of the circulating medium: that they have not known that the different kinds of currency into which the whole may be divided,



were performing different functions: that, while one portion of it was used solely by the inert and consuming classes of the people, another and a different portion was used entirely by the producing classes, for whom it was the sole medium of exchange. That, to the consequence of public men not knowing in what manner the whole productive industry of the country was connected with, and regulated by, that portion of the currency which alone, throughout the British islands, served the farmer, the grazier, the labourer, the miner, the manufacturer, and all the various traders connected with these—may be traced a great part of the calamities we have endured—calamities of which the history of the last nine months forms the third and the gloomiest chapter. After endeavouring briefly to analyze the paper currency as it existed in 1825, I purpose, in conclusion, to show how great is the error of expecting any material and *immediate* benefit from the establishment of branch-banks of the Bank of England; and that different measures from any hitherto announced, are requisite to restore and preserve the national prosperity.

---

#### OVER-PRODUCTION.

Before I enter upon the chief object of my inquiry, permit me to say a few words upon the improper application of the doctrine of over-production. As applied to the productions of the earth, it is manifestly absurd and out of place at the present time. As applied to

manufactures, it is not absurd, only in those manufactures where supply quickly follows demand. In regard to those which are matured by slow and complicated processes, it is in the present circumstances utterly inapplicable, and has produced infinite mischief.

The evil is not over-production. I do not mean to deny that, in a country circumstanced like Britain, we shall at different periods produce more than there is, at some particular junctures, a demand for; and I admit, in a limited sense, that we witnessed this in the year 1825. But this is an inevitable consequence inseparable from the principle of active industry, and is therefore no evil, on the long-run, to the nation. It may produce local and temporary inconvenience and individual suffering, but these would soon pass away if the people were left, without the interference of the government, to bring themselves right by means which their own good sense and experience would suggest. If a man's fields yield this year more hay than the cattle can eat, he must have more land grazed and less mown next year. If spinners and weavers spin and weave more yarn and cloth than they can sell, they must spin and weave less next year, and dig more of their own or their neighbours' ground for potatoes. It would be as wise for a husbandman, who had a fine spring of water, to stop it up or injuriously to obstruct its flowing, because after using all that he desired for his cattle and domestic purposes, the surplus injured his estate, by flowing through it; as it would be for a statesman to take from the community any of the means of bringing forth or maturing the valuable



productions of a country, because they were sometimes produced in too great abundance. Let the husbandman train the surplus water over his fields, to irrigate and fertilize, and let the statesman open new markets for the surplus productions. If any remained beyond what could be appropriated by these means, let them flow away by new channels, without price, to people who never possessed such conveniences. They who have, for the first time, partaken of the pleasures afforded by these profitless overflowings, will soon be rendered tributary to our skill and industry, when they find that without paying tribute the conveniences will be withheld.

To the imprudent efforts of the sanguine and enterprising we are indebted for many of our best markets for British manufactures. Without such men, the foreign trade of this country would never have attained one half its present amount. It is not, as they say who would impose restrictions upon our industry, that when we make more goods than we can sell to profit, it is the same as making them to throw into the sea. Though no profit may be derived by the individuals, great benefit may result to the nation, from their misdirected or mistimed exertions. A thousand instances might be adduced, from mercantile practice, to prove this. The most remarkable that occurs to me, is that of Sir Robert Peel, who was the first man, I believe, that sent British cotton goods to the East Indies. His penetrating sagacity led him to believe that India would become a great market for our manufactures. But when he mentioned the subject to Mr. Pitt, to obtain the sanction of the government, the minister smiled, and said, "Send coals



to Newcastle." The adventure was unfortunate, and Sir Robert Peel reaped not profit, but loss. Might he then as well have thrown his cottons into the sea? Let the annual export of ten millions or twelve millions of our manufactures into the east, which we have, or might have, supply the answer.

If the eager and sanguine masters, rather than consent to the entire destruction of their property in mills and machinery, and the total abandonment of the habits of their lives, were, for a short time, to employ their workmen in making goods to throw into the sea; even to permit that would be infinitely better, than to adopt opinions, which, in their consequences, lead the benevolent, unwittingly, to scatter premiums for indolence and vice all over the populous districts.

Any measure which will have power enough to prevent occasional over-production, will have power enough to injure, mortally, the productive energies of the people; and in exact proportion as we diminish the power of production in our own manufactures, we give a premium to the manufacturers of other states: in this manner our rivals will become strong, as we become weak.

He who supposes it is possible so to regulate our manufacturing concerns, as to apportion at all times production to demand, must have the most limited knowledge of manufacturing and mercantile operations. The clothier of Newbury caused the fleece to be shorn from the sheep, and the coat made from the same fleece, to be worn upon the man's back, between the rising and the setting sun. But so remote from this state of things is the condition of the manufacturers of Great Britain, who depend upon foreign de-

mand, that the operations of a day must have reference to circumstances spread over several years. This is especially the case with those who are engaged in fabricating almost all the productions of the loom. Without looking back to ascertain the time required for the supply of all things requisite for his trade, and supposing the manufacturer to have his workmen and machinery in proper order, the raw materials and dyeing wares ready at his hands; he must look forward, before he can give out his work—to the state of the export-merchant, the import-merchant, the wholesale dealer on the coast, and the inland store-keeper; the seasons when only the goods can be worn, as well as the times when the materials for remittances can be collected and shipped. If the measures of government had not prevented them, many manufacturers would, during the last six months, have been making goods which could not be dealt out to the consumers till eight or ten months from the present day. Yet these goods ought to have been in preparation; and distant as are the points of production and consumption asunder, if Englishmen cannot supply the demand, Frenchmen or Germans assuredly will. There has been no abundant supply of manufactured goods for six months past, and if a bad harvest had occasioned a large import of corn, we could not have paid for it in the productions of British labour, but we must have sent out gold to purchase the corn.

Already those injurious consequences, which I look forward to being extensively developed, in the course of years, are partially manifest. I could name parties who have received orders of great amount, for goods which



cannot be supplied, because, at that particular time of the year, when, in accordance with all former practice, the manufacturers would have made the goods in anticipation of a demand, which comes only once a year, those acts respecting the currency were passed, which bound them to inactivity and idleness. The demand for these goods comes to England in the summer, as it has every summer, for a series of years. Now, for the first time, it cannot be supplied. Recourse, for ought I know, may be had to Germany for a cheap and imperfect substitute: cheapness and habit may give a preference to the substitute, and thus may an important branch of manufacture be for ever lost to England.

I deny, altogether, that there has been any over-production during the last six months. The measures in February last, respecting the currency, were avowedly designed to prevent the recurrence of speculation and over-production. Taking into consideration the circumstances of other countries, whose productions enter into competition with those of England, I believe it will be found, that those measures have no tendency whatever, by the proposed mode of their operation, to prevent the alleged evil for a continued course of years; but, on the contrary, strong reasons may be urged, to prove that they have a direct tendency to provide for the more frequent recurrence of the alternations of scanty supply and glutted markets. As regards England, they will be found powerful to cripple her industry; as regards our rivals, they will be found powerful to aid their productions.

ON THE PREVAILING FALLACIES RESPECTING  
THE CURRENCY.

THREE CAPITAL ERRORS have pervaded all the parliamentary investigations respecting the currency, up to the present time.

The *first* is, that the Bank of England has been regarded as the prime mover and great regulator of the currency. The notes of the Bank of England have been viewed as composing the greatest portion of the paper circulation of the country, and the only portion worthy of much investigation. Whereas, though the Bank of England has great power to cause a contraction of the paper currency, when it has become enlarged, it has no power to prevent an extension to a given amount of considerable magnitude.

The *second* is, that, when proceedings were adopted by parliament, which had the effect of contracting the amount of the Bank of England paper, it was imagined that the contraction applied to the whole of the Bank of England paper issued, whereas it applied only to two-thirds of the amount; and those two-third parts, the only portion which was really performing the functions of a circulating medium; the other portion being, for all the purposes of circulation, defunct. Thus, for example, when a contraction of four millions only out of twenty-four was contemplated, it was actually a contraction of four millions out of sixteen. Or, instead of one-sixth of the whole, it was, in effect, one-fourth of the whole.



The *third* is, that the circulation of promissory notes and internal bills, payable after date, have never formed a subject of inquiry, and have scarcely even been adverted to, in any of the proceedings respecting the currency. It might not have been known that there existed such a species of currency, or that it formed any considerable part of the circulating medium of the country. Yet this part of the currency was performing the functions of circulation as much as Bank of England notes and country bank-notes, and its amount was upwards of ten times the amount of all the Bank of England notes.

Suppose a state of things in which demand and supply are both torpid; in which state the amount of the circulating medium is low, and that which exists is comparatively stagnant, the first impulse to quickened circulation is an increased demand for commodities. This increased demand arises first in those parts of the population most subject to changes in their circumstances, and consequently, it springs up primarily amongst people engaged in manufactures and commerce, and is usually created by our foreign customers requiring an additional supply of something that we have to sell. If they wanted to buy nothing but colonial or foreign produce, their purchases would be confined to the sea-ports, where the whole of the operations consequent upon the purchases would be complete. This would cause very little addition to the circulating medium, and the increase would be imperceptible. But if they purchased British manufactured goods, the increase of the currency would be immediate and perceptible, and the magnitude of the increase



would be in proportion to the extent of the increased demand and the duration of it. A demand for all our manufactures, of any given amount, would not, however, cause in each manufacture a corresponding increase of the currency; but that increase would be regulated by these circumstances: the raw material, whether obtained at home or abroad: the proportion of raw material and labour in the wrought fabric: the number of distinct traders through whose hands all the materials have to pass, of which the perfect thing manufactured is composed, before it is shipped at the sea-port. An example from our two staple manufactures, cotton and wool, will elucidate this. A merchant arrives from Moscow with a credit of £20,000. upon Baring, to purchase cotton-twist at Blackburne, and stuff goods at Norwich. He buys his twist of a spinner, and desires him, on a given day, to draw a bill at ninety days date upon Baring, for the amount. The spinner, finding the demand for twist increased, goes to Liverpool to purchase cotton, without delay, lest it should advance; and the cotton-broker draws a bill upon the spinner at ninety days, for his cotton. In this transaction, only two bills for internal circulation are created; that upon Baring, and that upon the spinner. The cotton-broker may, in consequence of this sale, direct a bill to be drawn upon him from New Orleans, but that will not augment our circulating currency. The effect of a demand for Norwich goods, made from British wool, is very different. The manufacturer sells, as in the other case, his goods for a bill on Baring. He then writes into Yorkshire for his yarn, and desires the

spinner to draw a bill upon him for the amount of the order he transmits. The spinner goes to Wakefield to buy wool, and another bill is created. The wool-commissioner at Wakefield writes to a woolstapler in London for a further supply of wool, and the woolstapler in London writes to a collector in Kent to weigh and pack some farmer's wool, and to draw a bill upon him for the amount; which bill the collector discounts with a Kent banker, to pay the farmer in country bank-notes for his wool. In this process, instead of two, five or six bills and the country banker's notes are put into circulation. Besides this, a considerable part of the cost of Norwich goods consists of dyeing and finishing. Bills are created by the claims of the dyer upon the manufacturer, the drysalter upon the dyer, &c.

The manner in which the increased number of workmen employed in consequence of this demand for goods, causes an augmentation of the circulating medium, is the same in both cases. It first causes an application to the banker, for a larger amount of notes to pay his weekly wages. More money being paid for wages, the receipts of all shop-keepers are increased; they experience a greater demand for goods; and they must replenish, or their stock will be run out. Consequently, one shop-keeper will transmit to a cheesemonger in Cheshire, a bill, who will take it to a country banker for notes, to pay a dairyman for cheese, to supply his shop-keeping customer. Another bill will be sent to a Norfolk cornfactor to buy corn, who will obtain country bank-notes to pay the farmer for his wheat. Another to Belfast, for butter, and so on.



These details, though tedious, are necessary for the purpose of exhibiting a fundamental error, into which, I think, all the inquirers respecting the currency have fallen, and which has been productive of incalculable mischief: they shall not be inconsiderately extended.

I have endeavoured, by this simple explanation, to describe the train of circumstances which show the manner in which the paper-currency of the kingdom begins first to be augmented. We have nothing to do with the Bank of England notes. Bills of exchange give the first motion to the increased circulation of commodities. This creates internal bills, payable after date, and country bank-notes, payable on demand. But the Bank of England has no means of knowing, from its own operations, that any increase of the currency has taken place, till the first-created bills of the increased class are becoming due; and then there will be more applications for discounts, to obtain notes to pay the augmented sum; or rather, to facilitate the exchanges of these bills, (for but few are actually paid in bank-notes,) at the clearing-house, and among the London bankers. What means, then, have the directors of stopping the first advances towards excess?

Bills which circulate freely along with country bank-notes of the larger denominations, and which are used conjointly with them for the same purposes, are not usually drawn at more than two months date; but in two months, in a state of things, when the circulation of commodities and of money is greatly quickened, the increase of the currency may be very great. I believe the increase may be fifteen or twenty millions, without that increase being in the least perceived by

the Bank of England, or a single additional note issued by that establishment. How fallacious it is, then, to suppose that the Bank of England has the power to prevent any augmentation of the currency. The universal opinion is, that the amount of Bank of England notes in circulation was first increased and caused prosperity. The increase of bank issues *follows after* the first steps of renewed activity, and rarely, if ever, *goes before*. Subsequently, indeed, continued prosperity is accompanied by the augmented issues of the bank.

To explain the *second* error will occupy but a very few words. None of the committees on the currency have adverted to the circumstance, that full one-third of the notes of the Bank of England, that are at any time issued, are locked up in the coffers of the London and country bankers. An amount of bank-notes, at all times, and under all circumstances, is kept by every banker, as a guard. This sum may be increased; but no prudent banker, who understands the principles of banking, will permit it to be decreased. It is true that, in case of alarm, when money-matters are greatly disturbed, and unexpected demands may be made, the rich banker augments this supposed amount, because he will at all such times keep his bank doubly guarded; and the poor banker, for lack of power, will, at the same time, be compelled to part with some of his customary guard, to save his bank. But this alters not the matter. Bank of England notes, to a given amount, are at all times fixed as immovably, in the banker's office, as his safe; and it would be as correct



to say, that the banker's counter was a part of the circulating medium, passing from hand to hand, and representing the exchanges of commodities, as to call this a part of the circulation which was really performing the functions of a circulating medium. The amount so locked up, is, I believe, never less than eight millions sterling. And all the circumstances which caused an extension or a contraction of the issues of the Bank of England, have had reference to that portion of Bank of England notes which exceeded the sum of eight millions. Thus, if the bank issues were twenty-four millions, and a contraction to the amount of four millions took place, the effect, as regarded the public, was a lessening of the amount of this part of the circulating medium of four out of sixteen.

Notwithstanding the various parliamentary committees that have investigated the subject, have passed, almost without notice, that part of the currency consisting of bills of exchange, it would need no effort to convince any man practically acquainted with the affairs of the country, that this is beyond all comparison the most important part of the circulation. Therefore, this *third* principal error will require to be dwelt upon a little longer.

Bills of exchange have long ceased to be merely an instrument of commerce, to render perfect a mercantile transaction between country and country; and internal bills have become gradually more and more a part of our circulation: they have ceased to be so currently used by the manufacturers, in payment of small sums under ten pounds, as they were thirty to forty years ago, owing to the high rate of stamps upon small sums.

Bills above the value of ten pounds form now as completely a part of the currency, as Bank of England notes or country bank-notes. They are used to pay for minerals—for all kinds of raw produce used in manufactures—for all the principal articles of food or clothing; and recently, in some cases, for mere labour. If a butcher in the north of England buys cattle, he pays for them partly in these bills, and partly in country bank-notes. If a miller buys corn, or a mealman or baker flour, he does the same. If a Yorkshire wool-buyer purchase wool of the farmers in his own county, or in Northumberland or Lincolnshire, he pays for it partly in these bills, partly in country bank-notes; or sometimes wholly in one kind, sometimes wholly in the other. In the manufacturing districts of Yorkshire and Lancashire, no man, generally speaking, thinks of paying for any commodity above the value of ten pounds, otherwise than in a bill after date. This practice is now very general throughout the northern and midland counties, and is increasing in other parts. Except in the north, however, these bills do not circulate generally or freely amongst farmers and graziers; and where they do so circulate, those persons have a great reluctance to take any but bills drawn by bankers upon bankers: this reluctance was increasing before the year 1825.

Although we are told by the very highest authority\*, that "it has been a common artifice, practised by those who have written on paper-currency, to confound paper-credit with paper-currency," the distinction ap-

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\* Earl of Liverpool's Letter to the King, page 220.



pears to me to be purely speculative. What is a bank post-bill? A bill for £100. payable after date, which to-day is paid at Folkingham for wool, to-morrow at Melton for horned cattle, the next at Leicester for sheep, and the succeeding day at Oundle for bark, is as much a part of the circulating medium, representing the transfer of commodities from hand to hand, as a bank-note for £100. that performs the same office in the same manner. Indeed, if this be an artifice, it appears to be admitted, that we practise the same artifice, by confounding "even the higher sorts of paper-currency with the inferior sorts:"—a Bank of England note for £50. with one for five pounds, which is indisputably true: the bank-notes and the bills are all paper-credit and all paper-currency.

It is extremely difficult to form an accurate estimate of the amount of these internal bills of exchange, during a period of prosperous trade. One man stated, that there were drawn upon his house, and he had accepted bills, to the amount of eight millions sterling, running and being undue at one time. He was a banker. I could mention two men; one a merchant, the other a manufacturer, not connected with each other, who kept up a circulation of these bills to the amount of three millions. This was previous to 1815. Any man, not a banker, might as well have attempted to circulate money in the moon, as to endeavour to accomplish the same thing since 1815.

The evidence collected from estimating stamp-issues is most imperfect, both in regard to bills and country bank-notes; but that which is not liable to suspicion may be gathered from parliamentary proceedings.

Mr. Richardson's testimony to the bullion committee of 1810, proved that the amount paid daily at the clearing-house of the forty-five London bankers was five millions. And Mr. Thomas, the clerk of the clearing-house, confirmed that statement to the same committee; and he further proved that this large sum was paid by exchanging the amount of one banker's claim upon another, except the small balances remaining after arranging those exchanges; and that £.220,000 was the whole sum wanted in bank-notes or coin, to pay the balances, and to complete the operation of paying daily a sum of five millions sterling. He stated the amount of five millions to be about the sum paid in the ordinary course of daily business; and that, on the settling days of the Stock Exchange and India prompts, the amount was fourteen millions.

I am not aware that, since 1810, any evidence has been taken which throws much additional light upon this matter: the payments at the clearing-house continue to be made in the same manner. But the amount must now much exceed the amount in 1810, because the manufactures and commerce have greatly increased since that period, particularly in the counties of York and Lancaster, where the great mass of bills are first put into circulation. Nine tenths of the amount of all bills are paid, when due, at the clearing-house.

To illustrate and establish what I deem an important position respecting the currency, I have shown, in a note\*, how this sum of £.220,000 might be entirely

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\* If every banker who pays at the clearing-house would provide himself with a little pass-book, and open in it forty-four accounts



dispensed with, and a sum of five millions be paid every day, without the intervention of a single pound in bank-notes or coin.

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with his brother bankers, the balances could be carried every day to the credit or debit of each other; and these balances settled, with interest upon every entry, monthly or quarterly. It may be said that this postponement of the settling would increase the sum liable to loss by failure. To secure themselves, the bankers might all agree to subscribe a sum each, corresponding to the average amount of his daily payments at the clearing-house; and let the aggregate amount be placed in the funds, to be available for securing any deficiency from failure. As the balances only would require to be paid, probably £.200,000 would be sufficient for the purpose.

There is now a sort of understanding amongst these bankers, that each is pledged to all the rest not to fail in the clearing. Great and unexpected demands caused a breach of this rule by Pole and Co. on the day of their first stoppage in December last; and that circumstance stimulated, in conjunction with their anxiety for the public good, Messrs. Loyd, Smith, and Robarts, to obtain from the Bank of England the loan which enabled Messrs. Pole and Co. to continue to pay another week. We shall soon see that it is only necessary to carry the effects of this sort of corporate feeling a little further, to witness a self-elected money-corporation, which would be, with all the supports of its influence in the country, ten times more powerful to aid or prevent excess of circulation, than the great money-corporation of the Bank, established by law.

All that can be required, therefore, to effect these immense daily payments without bank-notes, is a pass-book with forty-four ledger-entries, and the risk and trouble of carrying notes backward and forward will be prevented; eight or ten thousand pounds in interest will be annually saved; and a capital of £.220,000 liberated for reproduction.

If the saving of eight or ten thousand pounds per annum in this manner, were considered too trifling for the bankers to divide, let the amount go to form a superannuation-fund, to stimulate the zeal and cheer the old age of their clerks.

It has been shown that the daily payments in the ordinary course of commerce, at the clearing-house, are five millions. Strike off from this sum one million for London payments; and seeing that several London bankers make their payments at their own banks; that all bills discounted at the Bank of England, or made payable there, are not presented at the clearing-house; that many bills are paid in the country, especially at Bristol; that bills also are paid in London by private traders, and not at banking-houses—it must be evident, that four millions for each day is an amount far below the actual sum of bills of exchange paid every day in England. After estimating the average length of date of these bills, and multiplying the number of days by four millions, we shall be able to guess, near enough, the gross amount of circulating bills of exchange. Almost all bills drawn according to the established usage of different trades, are made payable at periods exceeding three months after date.

Bills are, in the usual course of trade, drawn for the sale of the raw materials of our principal manufactures, as follows:

For Cotton, .....	three months.
Iron, .....	three and six months.
Flax and hemp, .	four and six months.
Hides, .....	four months.
Silk, .....	six, eight, and ten months.
German wool, ...	four and six months.
Spanish wool, ...	four and eight months.
English wool, ...	two, three, and four months.

The bills in payment for manufactured goods, as



well as those for colonial and home produce, used for food, fire, dyeing, or domestic purposes, are drawn at various dates: the average may be about eighty days. Bankers generally, with partial exceptions, draw all bills for the purposes of trade at two months, except in Lancashire, where the established practice amongst bankers and traders is, to draw bills at three months; the deviation from which is the exception to the rule. And in consequence, a bill at three months is considered in Lancashire and part of Yorkshire, which, as regards bills, is almost half the kingdom, to be a *money payment*.

The Bank of England have recently extended their rule for discounting bills. Instead of excluding all bills that had more than sixty-five days to run, they now discount three months' bills: a proof of their knowledge that a great amount of good bills were drawn at three months after date.

From this imperfect sketch, it will be obvious that, to take the whole mass of circulating bills as being drawn at an average period of seventy-five days, the estimate will not be too high; and four millions, the amount paid each day at the clearing-house, multiplied by seventy-five, will exhibit a mass of circulation amounting to three hundred millions.

A large amount of these bills is, either from the magnitude of the sums or the length of time to run before the bills become due, ineligible for performing the functions of currency; therefore, in describing that portion of them which enters into circulation conjointly with bank-notes, or country bank-notes, we cannot take more than one half of the estimated amount

of the whole. But a sum of one hundred and fifty millions of bills of exchange, is, in the ordinary course of affairs, at all times in circulation, representing the transfer of commodities as much as any other description of currency.

By the arrangements of the clearing-house, and other contrivances, nine-tenths of this amount, after circulating and performing the functions of currency equally with Bank of England notes and country bank-notes, is now paid when demandable, without the intervention of bank-notes; and if the issuers of those bills drawn in Great Britain and payable in London, were, in drawing the bill, to insert a clause, making it obligatory upon all who received it, to cause it to be paid when due, to one of the forty-five London Bankers who exchange at the clearing-house, this amount of circulation would be kept up, if the bankers settled their balances monthly or quarterly, in the manner before described, without the aid of a single bank-note.

The Bank of England have, within a few years, determined not to discount any bills that are not made payable at a banking-house, however rich the acceptors might be; and it is quite as reasonable for the drawer of a bill to stipulate that it shall be received only by one of the clearing-house bankers. If the Bank of England would not discount bills with this clause in, they would be readily discounted by others, if the security were unexceptionable. It is well known that the Scotch bankers inserted in their notes an optional clause, to pay them either when demanded, or six months after that time.



However, I am not recommending any change in the manner of drawing bills; but merely showing the possibility of upholding a paper-circulation, without the aid of bank-notes, or coin, during a time of what is called cash payments. Bills generally pass through one or other of the established channels, to be presented for payment; consequently, the present practice, which causes nine-tenths to be paid at the clearing-house, is so nearly in this state, that no change can be necessary for any practical purpose\*.

It seems to have escaped observation, that out of London the notes of the Bank of England are scarcely

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\* It is curious to observe the working of this affair. At one of the city meetings in December last, for upholding credit, a gentleman earnestly recommended, that, from the extreme difficulty of obtaining bank-notes, traders should pay due bills, by other bills not due, held by the parties who had accepted the due-bills. If this project had been carried into execution, under the sanction of, and by the management of the bankers, (who did not, however, interfere,) the formation of a monied corporation not established by law would have been perfect; and we should have witnessed an association of persons, who have the power to support a paper currency, performing all the functions of a circulating medium, to the amount of three hundred millions, existing independent of the Bank of England, and never requiring a farthing in coin or bank-notes to uphold their circulation—an instructive commentary upon the law, which had settled the question for ever. I know that this state of things is never likely to occur in England; but after seeing that in America the people were compelled to accept, as legal money, that which was payable fifteen years after the date; and that in Scotland the bankers could make their notes current with an optional clause to pay them either on demand or six months after demand—there is no knowing what effect may be produced by the pressure of circumstances. It is right to contemplate possibilities.

ever used in commercial dealings. As an engine of commerce they perform, with some exception, no other function than to uphold the more important parts of paper-currency. And if no more Bank of England notes were wanted than those which at present represent the transfer of commodities from man to man, I am convinced that four millions would be more than an ample quantity. With an unimportant exception, it is other circulating credit, and not Bank of England notes, which is, in one shape or another, representing all the transfers of moveable property throughout the kingdom. We shall presently see, when we come to a more particular analysis of the circulating medium, for the purpose of showing in what manner it is connected with the industry of the country, how important it is to keep this in view.

The great source of error is, the habit of looking upon the issues of the Bank of England as the principal, when they were only the auxiliary. The use of inappropriate terms is a means of protracting error: the paper-currency of England has been described as a column, the base of which is the paper of the Bank of England. In one sense the metaphor is applicable, but in no other: you may break down all the rest, and leave the paper-currency of the Bank of England standing. But the bullion committee of 1810 thought that no paper-currency could be increased till that of the Bank of England had been enlarged. In this error they have been followed by all parliamentary inquirers, to the present day. "The paper of the country bankers," the committee say, "is a superstructure raised on the foundation of the paper of the Bank of England: the



foundation being enlarged, the superstructure admits of a proportionate extension." The committee evidently do not express what they mean: they mean, that country bank-paper is raised upon the Bank of England paper, and not upon the foundation of that paper. But the principle is far more erroneous: I have shown which is the base or broadest part, and which is first enlarged; and, I think, rendered it manifest that the paper of the Bank of England is the last to be extended. It appears to me, therefore, that the members who drew up that report, mistook the apex for the base.

The theory of the committee, in the same paragraph, about an excess of country bank-notes causing a local rise in prices, and sending all people to London, to buy cheap commodities, seems to me equally luminous. London, as an emporium for foreign and colonial produce and manufactures, is at all times resorted to by the purchasers of these goods; but that has nothing to do with the state of the currency. Who that had a correct notion of the working of the currency, would think of sending people from a distance in the country to London, to buy corn, cattle, cheese, wool, bacon, coal, lead, iron, &c. by an excess of country bank-notes, as compared with Bank of England notes.

Every body appears to imagine, that it is in the power of the Bank of England to force out and keep out a greatly increased quantity of its paper, without commercial transactions first creating a demand for it. In a period of general distrust of all other paper-currency, Bank of England notes may be greatly augmented; but not otherwise. Unless increased commercial dealings first open all the channels of circula-

tion, the increased issues will soon return to the bank; and I believe, therefore, that all the expedients to which the directors might resort for the purpose of increasing their circulation,—lending on mortgage, on goods, or on stock, &c. would be perfectly unavailing, to support for a long duration an increased issue, unless there were a simultaneous movement in commercial dealings, which does not necessarily take place, and a renewed activity in manufacturing operations. These expedients of forcing out money, by the bank, will tend in some circumstances to increase commercial transactions, and renew activity in manufacturing concerns; but the extent of this effect wholly depends upon the times when such expedients are resorted to. If after a long period of stagnation, in commercial and manufacturing concerns, they may produce a considerable effect, if not counteracted by prolonged distrust and alarm. If after a short period of stagnation, the effect, in putting commodities in motion and renewing manufacturing activity, will be scarcely perceptible.

Besides the fallacies of a general character, to which I have briefly adverted in the foregoing observations, there are some opinions of a more particular application, which the sanction of great names has rendered current at this day, and has given to them, as I think, an unmerited importance.

We have heard much lately, of a doctrine which goes the length of preventing all persons, but those of solid capital and great pecuniary resources, from entering into trade, or remaining in it. It appears to me that the advocates of this doctrine, manifest either an incapacity to understand the principles



which have caused the commercial greatness of England, or an unaccountable negligence in examining those principles, and tracing their practical consequences. A man of solid capital, great pecuniary resources. What does this mean? It must mean that a man is rich, and that he, in addition to being rich, derives great power from the reputation of riches. It is proper, they say, that only such a man should be permitted to enter into trade and obtain credit. I might be content with the simple declaration, that, where one man, in manufacturing concerns, who has begun to trade, being rich, has even *added to his riches*, (I go no further,) one hundred men have become rich, who began to trade with little or no property. But let us endeavour to analyze the matter a little, and we shall see that this must be the case.

A comparatively rich man wants the great stimulus for exertion in dirty traffic, the desire of wealth for enjoyment and distinction; but he has plenty of incitement for avoiding it, and partaking of pleasure. The possession of money, and his credit, afford him the ample means of present enjoyment, and his youth is spent in a manner which precludes the possibility of his acquiring the *proper habits of a successful tradesman*. He is a man who has been educated with other men whose principal objects in life are the pleasures of society. He is desirous of distinction and advancement in this class, and his days are past in devising means of rising into notice among those whose friendship and intercourse confer upon him a distinction more valuable than wealth. He trusts to his capital, and to those principles of commercial

usage, which connect credit with property rather than with industry, skill, and frugality, to furnish him with the ready means of increasing his expenses, as he feels the repeated claims upon his purse. Before he arrives at middle life, and this is the important matter, his habits are altogether estranged from the habits of prudent men in business. They must dine in thirty minutes, at some time between twelve and two o'clock, and away back to business. But he must dine at an hour recognised in society, apart from the chance of interruption or intrusion for the remainder of the day, on subjects of trade. If such a man, after a few years, does not run away with the wreck of his property, into a lodging-house at Bath or Brighton, he will become bankrupt. The man who commences to trade upon a small capital, has obtained that property, either by saving a part of the wages of his own labour, or it has been given to him by his father; it being small, he finds the difficulty of borrowing, and will watch with carefulness the appropriation of the sum borrowed. He has the strongest motive in the world to increase his property, because all around him are pressing forward in the same pursuit of gain; and the concurrent testimony of his neighbours and competitors has taught him, that that is the one thing needful to insure the respect and approbation of his friends and the world. The seductions of society have no influence upon him, because the quality of his own mind and manners repel him from all contact with the votaries of leisure and refinement; and the habits of his life become fixed in the routine of careful industry, before he can have



acquired property enough to render his company in society an object of desire merely for his wealth.

If the rule of confining credit to men of solid capital, mean, giving credit to men who have *acquired* solid capital by their own exertions, persons of this description want little or no credit; therefore, the effect would be to banish credit altogether, or nearly so.

If doctrines like these had prevailed fifty years ago, and had remained in vogue to this day, where would have arisen manufactures and commerce, the right arm of power? Not in the British dominions. And the continued prevalence of these doctrines may now drive the manufacturers employed to produce for foreign consumption, to other states, where the astonishing power that we have derived from them may rise up, and be arrayed against us. The manufactures of Britain are the growth of centuries; but their prodigious increase has taken place during the last fifty years. A just opinion exists, founded upon a knowledge of the history of trade, that it has been found to be extremely difficult to transfer manufactures from one country to another. Recent events have removed much of that difficulty; and if we omit to reflect upon the altered circumstances of the world, when we consider this subject, we shall be led astray. Such is now the facility of personal communication, so quickly does intelligence spread, and so readily would people transfer their labour and their capital from one state to another, while political hostility sleeps, that five years of retrograde action, arising from harassing interference with our manufactures, would be quite long enough to enable us to predict with certainty, that the

ascendency of England, in manufacturing power, will soon be no more.

There can be no surprise, that many great capitalists are found ready to applaud a doctrine which tends to give them an exclusive monopoly. If they can induce ministers, by one act of legislation after another, to exclude all but men of solid property from participating in any of the benefits of a system of credit, it will be as good as a direct act of incorporation for exclusive trading to the capitalists. Nothing could be more opposed than this, to the principles and practice of British commerce. If it should be brought into perfect operation, it will be destructive of the very *animus* of national prosperity, and will drive youthful enterprise, and manly, vigorous industry, to other states.

One is astonished that a knowledge of the early history of almost all persons who have risen to wealth and distinction by manufactures, should not lead men to doubt the efficacy of this favourite commercial creed. There is hardly a man amongst them, that did not begin to trade upon credit, without solid capital. People collect the bills made out in the hand-writing of Sir Richard Arkwright, when he was a barber, and shaved for a penny a beard; and though these may never sell for so much as an Italian manuscript, whoever contemplates the descendants of this man of genius, skill, and industry, but of *unsolid capital*, in the possession of the fine estates and vast revenues of some of the ancient nobility of the land, will regard them as curious and prizable relics.

Circumstances on a level with this, indicative of the



low condition of the possessors of other renowned names, might be culled from a narrative of their struggles in the first stages of their career of wealth, but the facts are notorious; and not one of these men could have risen from his low estate, if the principle of confining credit to persons of solid capital, had been in rigid exercise.

A great misconception prevails, that, when a country bank fails, the labouring poor suffer greatly by holding its notes. Wages are usually paid between five and eight o'clock on Saturday evening. The notes that labourers receive are paid away to shopkeepers before eleven o'clock the same night. If the banker have failed before the notes are paid to the labourer, or do not open his bank on Monday morning, the notes, by law, revert to the master who paid them. If they be held beyond the time of the bank opening, the notes are kept at the risk of the holder, who is very rarely a poor labourer. If the labourer have saved money, and placed it in a bank that fails, he is entitled to great commiseration; but he is then a man of capital, and must take upon himself the responsibility of managing his own affairs. You have recommended to him the savings' bank, and offered him inducements to deposit his money therein. If he prefer another security, and sustain injury thereby, he has no more just claim for your interference on his behalf, than the man has who lends money to the Greeks, and sustains loss. When a banker fails, the public sustains but little direct loss by holding the small notes. Almost all the small notes are either then in the possession of shopkeepers indebted to the bank; or they take means to

obtain them, because they can be paid for their full nominal value, in discharge of the banker's claim on the shopkeeper. The law frowns at this, but it has not yet prevented the practice. Printed handbills are yet posted up in the shop windows in Yorkshire, offering to take Wentworth's notes at their full value, (*in real value* ten or twelve shillings in the pound,) in payment for goods, although the bank failed ten months ago, and has paid no dividend.

In point of fact, when a bank fails, the loss to the labourers, by withdrawing from the masters the means of continuing their employment, is a hundred times the extent of that which they sustain by holding their notes. Where the labourers of England have lost one penny by the breaking of the banks, they have lost one pound by even the threat of withdrawing the small notes from circulation.

#### COUNTRY BANKING EXPLAINED.

I now proceed to describe the different kinds of paper-currency circulating in different parts of the kingdom, and to explain how they are connected with industry; in order that we may perceive how any considerable changes in the currency are likely to affect the productions of industry.

We must take a cursory survey of the population of Great Britain. What parts of the population of the British islands are engaged in bringing forth and



maturing the productions that constitute the national wealth? And what parts are engaged exclusively in collecting, distributing, or consuming these productions?—All those people employed on the coast-fisheries, in all mining, agricultural, and manufacturing concerns, are engaged in producing. And these we find, by reference to a map and the population returns, occupy almost the whole surface of the country, and amount to almost the whole of the active part of the population. What kind of currency do these people use, to facilitate their operations? With the exception of those who are employed in manufacturing a few articles of luxury in London, a trifling silk manufacture in London, and about 70,000 people (*not more*, who use bank-notes) in, and about, Manchester, none of these important classes of the people use Bank of England notes or gold coin. The great points of collection and distribution, for productions, are London and Liverpool. In these places, Bank of England notes are used to represent the transfer of commodities; in Liverpool partially, and in a very limited degree; in London, more generally and more extensively.

I have enumerated all the parts of the country where the notes of the Bank of England are, generally speaking, used in the transactions of mercantile business. Paper-currency, however, of some kind or other, not that of the Bank of England, is universally used as a circulating medium amongst all the productive classes of the community. Let us examine how this important instrument has come into general use,



and ascertain whether it can be taken away without injury.

Sixty years ago, the country banking system of England had a very confined range of operation; it had then become connected with agriculture, and partially with the mining interest, but to a very limited extent indeed with the manufacturing interest. Many large manufacturing towns had no bank, till within fifteen years of the present time; and one, containing a population of thirty to forty thousand people, had none till within the last four years. The wealthy farmers and country gentlemen began to resort to country banks, to deposit their surplus capitals; sometimes on interest, sometimes without, according to the time that the money remained with the banker, and the terms upon which he received it. This money was lent out again partly in the neighbourhood, but more of it went to London, to be lent by agents to the government, the merchants, and large traders; and in some cases, to the proprietors of mines. It was not till a more recent period, that the agricultural bankers commenced the practice, now carried to so great an extent, of lending money, by means of London agents, to manufacturers, upon bills or circulating credit, payable after date.

This was the state of the banking business in this country, when the discovery in the sciences and the inventions in the arts, connected with mining and manufacturing concerns, began to produce their wonderful results.

Watt and Arkwright, and all the enterprising men that were called into activity by the productions of

their genius, found a system of banking established, to lend them support with capital, and to furnish them with a circulating medium. If there had been no such system of banking as this in existence, which collected the surplus capital of the country wherever it was abundant, and sent it to those parts where it was most wanted, our manufactures could not have made any rapid progress; and it is not unlikely, that some foreign state would have started with us, in a manufacturing career, upon nearly equal terms. This system of collecting capital from those who have too much, and lending it to those who have too little, when perfectly organized, as it is in England, has the same effect in affording equal money advantages to all the departments of industry, as roads and canals have in equalizing the prices of provisions and commodities in a country; and in both cases the more free from obstruction, and the more direct and expeditious the communication, the better. Hence the creation (as indeed it was) of internal bills of exchange, which were wanted as conductors from the reservoir to the object requiring supply. An instrument more perfect than a bill of this sort is, for its purpose, could not be devised. No cumbrous deeds to consult upon, settle, and engross: no lawyer, witness, or travelling expenses; or time lost to complete the security. Secure from robbery, easily transmitted, and having, in law, so long as the parties lived, all the power and validity of the most formal instrument. (I know how much the practice of making these bills has been abused, especially in Scotland. I am not defending an abuse, but explaining a system.)



But though our manufacturers could not readily have obtained a sufficient supply of capital, if some such system of borrowing and lending as that of country banking had not been already organized, the practices heretofore resorted to in some parts of England, Scotland, and America, testify that they would have created for themselves a spurious circulating medium, for the purpose of paying wages, infinitely worse, in all its characters, than the small notes of country bankers. And so great is the urgency of that necessity, which would at all times, when it was required, create this spurious currency, that unless one half the manufactories be permanently stopped, whenever the bill to prevent the circulation of small notes comes into operation, this worst kind of paper currency will again be adopted; and I believe that no law can be framed to prevent this effect taking place, in one shape or another.

It may be said that country banking, as it is now carried on, has arisen, principally, into operation and influence, within the last thirty years. The convulsions in credit, in the year 1793, had produced a great dearth of capital, in every department of industry: and the circumstances of the country were such, as to afford the most profitable employment to every man who had skill, and industry, and capital united. Nothing could be more natural than that an intimate connexion should immediately be formed between those who were engaged in collecting the surplus capital, wherever it was abundant, and creating additional representative capital by putting their own credit into circulation, and all the productive classes of the community. This business was found to be very profitable to the bankers,



and they extended their dealings. The new bankers who sprung up offered greater advantages; and instead of waiting for applications from the borrowers, they began, in many instances, to take very active measures themselves, to lend their money. They either offered money at a less expensive rate to the borrowers, or to lend them more of it when required. It became, in some parts of England, an established rule, that the banker should, besides discounting all bills whatever for his customer, which he had received in the course of trade, hold himself at all times ready to lend an amount equal to one-tenth of the returns in yearly account between the parties; and this without a bill, note, or security of any kind. So that if the returns in a year between the parties were £100,000, the trader could, at all times, borrow of the banker £10,000. Even this most relaxed rule was, in many cases, greatly abused. Sums, the amount of which far exceeded what this rate would have prescribed, were lent, and no proper discrimination was exercised in selecting the borrowers. Some bankers, knowingly, upon a calculation of profit, encouraged accommodation bills;—a practice almost unknown of late years, all respectable country bankers having, for a long time, been more scrupulous, or having better information to guide them, in taking such bills only as were drawn for valid transactions, than the Bank of England. I knew, however, a country banker, in the really vicious times of banking, previous to 1815, who advanced a large sum to a cattle dealer in the north of England, for the purpose of keeping up an immense circulation of accommodation bills, and

thereby augmenting his own commission profit. This cattle dealer employed for many years nearly twenty men, to buy cattle of farmers, in all parts of the kingdom north of Leicester; and these cattle were paid for by bills which the dealer drew upon his accommodation house in London; and which were first signed by the master, and then given to the men, in blank, to be filled up by them according to the sums wanted. These men were also employed, at times, to endeavour to get these accommodation bills discounted at country banks, in which endeavours they were, in many instances, successful. No man could make such machinery as this work since 1815; and it is one proof out of a thousand that might be adduced, of the salutary change in banking affairs.

This was the state of things in lending out money: there was a corresponding action in collecting it in. Many bankers raised the rate of interest upon deposits, and all were glad to get the wealthy to bring their surplus money into their banks. In the agricultural and grazing districts, an intelligent clerk was sent round to all the neighbouring fairs and markets, as a sort of drag-rake, to collect all, but the mere gleanings of the surplus money of the country. In those parts of the country inhabited by farmers and graziers, the bankers attended all the markets, and by offering higher interest, or other influences, collected all the money they could; while in those parts which were inhabited by manufacturers, the bankers attended the markets to dispose of their notes, and by offering cheaper discounts, obtained all the bills they could;



allowing, at the same time, their overdrawn accounts to be kept at the utmost stretch of borrowing power. In many counties both the wheels of the machine, performing opposite functions, were kept in motion, within the sphere of, and managed by the same bankers.

I have just now described the state of country banking as, in general terms, it may be said it existed for twenty years; *viz.* from 1795 to 1815.

As the state of banking business, during the period now under our observation, might have afforded some reason for judicious interference, if we pause for a moment to examine the matter, we shall find, that even that state would not have justified the speeches and proceedings passed, and in perspective, against country bankers.

At no period, except that between 1795 to 1815, could the recent censures of the conduct of country bankers be applied with any reason. That period was suffered to pass without much notice or animadversion; and it is most unjust to aid and give currency to prejudices against a class of men, when they are using successful exertions, by wise and gradual means, to establish the practice of their business upon stable principles, agreeing with existing habits of trade, and conducive to the security and prosperity of the public.

No one will deny that there was much in the manner of conducting banking affairs, within these twenty years, that was vicious; but that furnishes no ground whatever, as will be seen presently, for passing a bill in 1826, to suppress one and two pound notes, and for taking other means to cut down country bankers.



Let any man examine the circumstances appertaining to country bankers, and compare them with circumstances somewhat analagous in other countries. He will be excited to wonder that a system combining so much power to aid production, and to assist in upholding the pecuniary resources of the state, should have been completed and brought into perfect operation, attended with so little evil. You have stated, Sir, very truly, that these bankers were intrusted with a power almost equal to the king's prerogative of coining. Their system was advancing into full operation and influence, during a period when political affairs tended, in this country, beyond all former experience, to excite production, and to put into motion all kinds of moveable property and their representatives. You permit to be erected in any town or village of the country, a bank—an engine of tremendous power and influence, which can be made in a day, and which, when used skilfully, always leads to wealth; and you appear surprised that so many of the people are ready to become possessed of this power and influence. The people see, that by the possession of this powerful fulcrum, the son of a higgler, whose property was a waggon, four horses, and roadside song, can attain great wealth and borough influence, and can seat himself, with the distinguished men of the country, in the House of Commons; and you wonder that they should emulate. They see that another can be lifted by it from a counter to a peerage. Who can be surprised that numbers think that, by skilful management, they may attain some distinguished point of elevation in the same tempting career.

These observations apply more to the characters of bankers than to their business ; but I think them not unnecessary, at the present time of misconception and prejudice on this subject. So far am I from concurring in the fashionable sentiments against bankers, for their grasping love of gain and reckless spirit of speculation, that if I were called upon to mention any thing which, more than all others, marks the English character for prudence and considerateness, I should select the conduct, taken on the whole, of the country bankers of England. And looking at the circumstances of excitement and temptation in which they were placed, and the extraordinary power which they acquired, in a sudden manner, by becoming bankers, I should not fear the decision of any impartial judgment.

With a perfect knowledge of all the disasters produced by the failures of banks in Northumberland and Durham, Lancashire, Yorkshire, Lincolnshire, Kent, Hampshire, Devonshire, &c. I aver, that the Scotch bankers have done more to abet a spirit of mercantile speculation,—meaning by that term, not gambling in shares, but something compounded of enterprise, industry, miscalculating folly, and cupidity for gain—than all the country bankers of England put together. In the single point of security to the public against failure, the Scotch bankers excel the English : in all other respects, they are greatly inferior to the best and the greatest portion of the English bankers.

Even the principle of security from failure has, in Scotland, been made to operate in a baneful manner for the public. By the general combination of feeling amongst all classes, created, encouraged, and established



by the bankers, in a manner that gave it the force of law, Bank of England notes, or coin, were scarcely ever demanded of the Scotch bankers. Their deposits of cash, to meet demands, were therefore kept at the lowest possible amount; and consequently their circulation of notes was upheld at the lowest cost. No prying member could, or would, ask for proofs of excess in their circulation; and any southern fool who had the temerity to ask for a hundred sovereigns, might, if his nerves supported him through the cross-examination at the bank counter, think himself in luck to be hunted only to the border. Free from the consequences of excess, which attended the English country bankers, and from the censures that were dealt out against the Bank of England directors, upon every increase of their notes, the only security against excess, in the operations of Scotch bankers, was the *well known moderation of their desire for gain*. The plea, so confidently put forward, of the mutual periodical exchanges of notes amongst the Scotch bankers, operating to prevent a general excess of circulation, is too weak to require an answer. They are all influenced by one principle, and all their actions are directed to the same end at the same time. If their interest lead them to augment the circulation, the proceeding of one and all will take the direction which leads to increase. They might as well tell us, that when two rivulets join and occupy the same channel, each diminishes the water flowing from the other. The notes, though exchanged, are immediately issued again into the general circulation; and the practice of exchanging notes, so far from operating, necessarily, to prevent excess; may, in the unchecked,



unwatched, irresponsible mode of conducting the note circulation of Scotland, tend to quicken all the operations which produce excess. When one banker sees that another has issued more notes than usual, he is immediately advertised that his rival has taken a step in advance upon him, in the pursuit of gain; and when profit, without risk, is the object, who will say that any Scotch banker is backward in taking the second step?

The principle of limiting the discounts only by the security of the bills, so much reprobated in the practice of the directors of the Bank of England, although exercised by them with extreme moderation, was, in Scotland, in full and unrestrained operation. And as one illustration of this, out of a hundred that might be cited, the Scotch bankers have long acted upon an established custom of discounting, for the travellers of wholesale English houses, the bills, or acceptances, of all the traders and shopkeepers in Scotland, at various dates, from two to six months, and taking in all classes; not only the larger traders, but also the smallest shopkeeper, to a little hosier in a village; the security of the English firm, the drawer of the bill, being in general an ample guarantee against loss. I am not indiscriminately censuring facilities of this kind: the degree alone gives the character to the action. But I have no hesitation in asserting, that to the excess to which the Scotch bankers carried the system of putting individual credit into circulation, may be ascribed the extreme suffering of the manufacturers of Scotland during the present year. The currency of Scotland has for several months been contracted in

an unprecedented manner, and the suffering would consequently be the greatest, amongst those whose credit was made to circulate with the frailest supports. The circulation of credit has been forced to an extravagant degree in England; but to so much greater an extent in Scotland, that, in making the comparison at all, we can hardly do it, without injustice to England. The practice, long acted upon, that I have mentioned, of making every little shopkeeper's credit available for circulation and capital, is, as a system encouraged by the bankers, almost utterly unknown in England, south of Kendal.

I trust I may here be allowed an observation upon the very different measure of justice which the government has dealt out to England, from that which it has extended to Scotland. The country banking system of England, with a vast and inestimable portion of good, had blended with it a small portion of evil:—the right policy would have been, to correct the evil and leave the good. Not such was the policy pursued; but in a vain effort to correct the evil, a great portion of the good which the public has been accustomed to derive from the exercise of that system, is, or will be, destroyed. In the banking system of Scotland, there was mixed with much good, a very great portion of evil; using this term evil, to mean an outrageous departure from those principles, which His Majesty's government have promulgated as just and true principles respecting the currency. Not more in opposition to all the just principles of commerce, were the schemes of that famed Scotchman, Mr. Law, than was the practice of the Scotch bankers in opposition



to these declared principles respecting the currency. To establish this by reference to actual transactions, would subject me to a legal responsibility which I cannot be expected to incur; but I could establish the truth of the position, by facts and circumstances, within my own knowledge, beyond all controversy.

You have permitted the perpetual circulation of small notes in Scotland, after a parliamentary investigation into their merits, which gives them something like a legislative stamp of validity; while in England you permit, only for a limited time, the circulation of small notes; having first stamped upon them a character, which tells every man that they are tainted and proscribed. Did you abstain from pressing the measure against Scotland, because it would interfere with the habits of industry of the people? The injury to the national industry, by withdrawing the small notes from circulation in England, will be six times the extent it would be by withdrawing the small notes from Scotland.

The Americans (I speak not of the disgraceful proceedings, in regard to money, under the colonial governments, but of the banking-matters of the United States) had the English system of banking as an example. In modelling their own after ours, they had only to choose the good and leave the bad. The opposite rule to this was adopted, and so soon did they quit the guidance of reason in their money affairs, that their bankers' notes became almost assignats; and no more striking fact could be adduced to prove this, than that eight of their share banks, each with shoals of reputable partners, became bankrupt and insolvent.



All experience shows how difficult it is to regulate this tremendous engine, which gives the power to individuals of creating an amount of the circulating medium of a state, unchecked by wise regulations and judicious laws, to keep it adjusted.

I have adduced the examples of the Scotch and the Americans, the two most intelligent people in the world, in commercial affairs, to prove, by comparison, that there is no ground whatever for the indiscriminate censure of English country bankers. We ought not to forget, that the period we are contemplating, 1795 to 1815, was one, which required all the powers of the British nation, in every department of life, to be called forth. Human wisdom could not devise a plan more calculated to strengthen and increase the productive energies of the country, than the system of country banking; nor could human genius pourtray consequences more vast and important, than those which flowed from the adoption of this system. Without it, the skill and industry of the British people, in the new range of their exercise into which they were directed, would have advanced by slow degrees. Obstructed at every step, and struggling with foreigners in the field of competition, we should have reaped but a part, instead of the whole of the golden harvest; and fame would never have carried those homely names, the Watts, the Walkers, the Smiths, the Marshalls, the Arkwrights, and the Peels, which now dazzle our grovelling trade-enamoured imaginations more than those of the Percys and the Howards, far from their forges and anvils, their counters, their spinning jennies, and their looms.

I am not now giving an opinion, whether this system has, upon the whole, been conducive to the happiness or misery of the people. There can be no doubt that it tended greatly to spread knowledge throughout all ranks; to increase wealth, and give political power; and that it carried the country through a contest, which, without such aid, must have been terminated much earlier by a treaty, that would have borne on its front; the ascendancy of France—the debasement of England. I think, therefore, it is a little unfair, that any one who has been united with this system so many years, reaped all its benefits, enjoyed all the triumphs, and crowned by all the honours that were won by its influence; should now concur in censures, and recommend measures for errors in its exercise, which proceed entirely from mistaken principles, adopted many years ago: those errors being, at the same time, in a safe course of gradual correction, by experience and the influence of wiser notions.

So important has been the aid which the government derived from the system of country banking, in acquiring power from it, to render perfect that foreign policy, which they must have considered to be planned in wisdom, and which was executed with the greatest difficulty; and so replete with extenuation, are the errors into which country bankers were betrayed by circumstances, that I have chosen to apply my apology for their proceedings, to the point of time when their practice had deviated most widely from rectitude.

It would not be difficult to show, that to circumstances of mismanagement, previous to 1815, either in the same banking firms, or in the individuals who



managed the banks, might be traced, directly or indirectly, the failure of all the principal banks, at the close of 1825. One example, out of many that I could adduce, may illustrate this.

The firm of Wentworth and Co. in Yorkshire, was formed in the year 1812, to continue a banking business which had existed some years. The managing partner of that firm had formerly been a clerk in a banking house in Yorkshire, which failed in 1810, after he left it, owing to the extent of its dealings, according to the vicious principles of indiscreet bankers, about that period. This individual had subsequently managed a bank as a partner, and, during that management, had never disengaged himself from the bad principles of banking, which he had adopted as a clerk in his noviciate: the imprudent practices of this bank were marked accordingly by their intelligent rivals. The bank, however, never failed, and the firm of Wentworth and Co. took the business without any change; engaging to pay all the debts, and taking all the credits as valid assets; subject, perhaps, to the guarantee of the managing partner. One debt so taken, amounting to upwards of £40,000. remained unpaid, and unreduced, at the bankruptcy of Wentworth and Co. in December last. The firm of Wentworth and Co. established, since 1815, a new bank at Bradford, consisting of, and managed by, the same partners. This bank was conducted, though not with strict prudence, yet upon safer principles; and speaking of the transactions of this bank alone, it was solvent and prosperous at the failure of Wentworth and Co. What could be a



stronger confirmation, than these and similar circumstances, of the influence of the principles which obtained amongst bankers, previous to 1815; and of the working of the principles of caution and circumspection, since that period.

I believe that all men who understand this subject, will agree with me in opinion, that, if the same number of failures had occurred amongst bankers, at the close of 1815, as occurred ten years afterwards, their creditors would not have received one half of the amount in dividends, pound for pound, that will be received on the present occasion. And if circumstances had forced the same degree of pressure upon them at that time, the failures would have been more numerous.

More than one half of all the country bankers who failed in December last, have either since paid in full, or have convinced their creditors of their ability to do so. Of the remainder, perhaps a few will pay little or nothing; but take the mass of insolvent bankers, and of them it may be asserted, that larger dividends will be paid, than will be paid by the same number of persons in any other class of traders who became insolvent\*.

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\* In the Leeds Mercury of September 16, 1826, there are seven advertisements respecting the affairs of insolvents, and twenty-three respecting those of bankrupts, within the district in which that paper principally circulates: (thirty in one provincial paper!!!) Of the latter, two only relate to the bankruptcy of bankers: Messrs. Wentworth and Co. and Messrs. Dobson and Sons. Of all the bankers that failed in December last, none were the objects of more censure and abuse than those bankers, and they certainly were amongst that class

I affirm, not at random, but after inquiry and consideration, that I could mention the names of ten

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of failing bankers, whose circumstances were the most desperate and irretrievable. I have been at some pains to inquire into the circumstances of these thirty bankrupts and insolvents, and I believe not more than two of them will pay, in the whole, so large an amount in dividends, as the least amount that will be paid by either of these bankers. As some confirmation of this opinion, I extract the following advertisements and notices, from the same Leeds paper of 16th of September.

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*"Wentworth and Co.'s notes, bills, and receipts, for proved debts, will be taken at full value, for superfine black, blue, and drab cloth, (warranted perfect,) by R. Crookshanks, auctioneer and appraiser, at his Scotch and Wilton carpet warehouse, in Minor and Scurr's Yard, Briggate, Leeds."*

*"R. C. has just received a fresh supply of Scotch and other carpeting, and hearth rugs, which he is selling at reduced prices, for ready money only."*

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**"IN MESSRS. DOBSON'S BANKRUPTCY.**—The creditors who have proved their debts under this commission of bankrupt, may receive their respective dividends, at the late banking house of Messrs. Dobsons, in Huddersfield, on the 14th day of September, instant, or at any time afterwards, between the hours of ten and one; and all persons holding any bills, or other securities, proved under the said bankruptcy, will be required to produce the same. By order.

*"Battye and Hesp, Solicitors."*

*"Huddersfield, Sept. 1, 1826."*

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**"MESSRS. WENTWORTH AND Co.'s BANKRUPTCY.**—We have the satisfaction of informing our readers, that the Borthwaite estate, including the minerals, &c. late the property of Mr. Rishworth, has been sold to Colonel and Mrs. Beaumont for £50,000. Possession, however, is not to be given till next February, and of course the purchase money will not be paid till that time. This sale will not,



mercantile and manufacturing firms, by whose failures the public will sustain an aggregate loss, far exceeding in amount, the aggregate loss that the public will sustain by the failures of all the country bankers in England, during the last twelve months.

I now proceed to explain that, subsequent to the year 1815, a change took place in the opinions and practice of country bankers, which rendered any attempts to curtail their influence highly inexpedient; and when coupled with the events at the close of 1825 and commencement of 1826, to the last degree unwise.

Owing partly to the great contraction of the cur-

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therefore, increase the amount of the first dividend; but will form the basis of the second payment to the creditors, which it is probable will be made early in the spring of next year.

“The bank of Messrs. Dobson and Son, Huddersfield, commenced the payment of their first dividend, of five shillings in the pound, on Thursday last.”

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The affairs of some of the fallen bankers, no doubt, are very bad; but surely circumstances such as these, taken from that class of broken bankers whose failures were of the worst character, and produced the worst effects, would cause persons of candour to blush, for having, by means of the press, propagated opinions regarding the desperate gambling nature of the general practices of country bankers, so injurious to their moral character, and so monstrously unjust.

I must beg it to be remarked, that only three out of these thirty advertisements relate to persons living in Leeds; that more than one half of them relate to parties living either in Lancashire, or in that part of Yorkshire bordering upon Lancashire. And they were persons whose habits led them to deal with Manchester, and to adopt the bill system of Lancashire, rather than the country bank system of Leeds.



rency about 1815; partly to extensive failures, the consequence of pushing credit and circulation to an extreme, operating as a direct warning in particular districts; and partly to an improved state of knowledge of the banking business,—the minds of all considerate country bankers became about that time convinced of the necessity of conducting their affairs with greater prudence and circumspection. This change in the principles of conducting their business, it will be proper more particularly to mark, for the purpose of a clearer comprehension of the present state of things.

The necessity of interference, in regard to country bankers, has been urged, and measures of the most injurious tendency to the public have been passed, owing principally, I think, to the very nature of the subject precluding a fair statement of facts and circumstances. The private affairs of individuals, from which a strong case might be made out, cannot be dragged forth, and those who understand the subject are driven to general statements and reasoning thereupon. If the matter could be fairly stated, by references to actual practice and experience, immediate conviction of the truth of the case would follow. Hence a matter of paramount public importance, is dealt with in utter ignorance of its merits; because, to place it in a just point of view, requires reference to the private concerns of individuals, which we are not allowed to disclose.

It is true that public failures and bankruptcies take the affairs of individuals out of the rule of considering their conduct and transactions, as sealed matters of a perfectly private nature; and an intimate knowledge

of the circumstances of Kensington and Co. Bruce and Co. Pole and Co. Perring and Co. and many others who failed in London; and of Read, Batson, and Co. Mowbray and Co. Wentworth and Co. Elford and Co. and many others in the country,—would yield matter of deep interest and importance to the statesman, as well as the practising banker. But, as my present purpose is to show, from the general practice of those bankers that now remain in business, and who are, almost without exception, sound in their affairs, and prudent in their habits, that there was no ground whatever for passing measures intended to curtail their influence; and that, to follow those measures up by enacting others more severe, of the same tendency, will be dangerous to the public interests;—I must take credit for the accuracy of my statements. They are the result of inquiry long pursued, and of intimate knowledge of the subject; and I am confident that all men, well informed on affairs of the country, will confirm, in every particular, my assertions.

I am acquainted with the partners in a country bank, who began business some time about the year 1803. As soon as their intention to open a bank was known, two London bankers, one in a carriage and pair, another in a carriage and four horses, went from London to the town where the bank was to be opened, to solicit the town agency of these bankers. About the same time, one of the partners in this country bank was walking in a street in London, when a gentleman in a carriage, *unknown to him*, pulled up, and stepping out himself, desired the countryman to get in. “My name



is ———, the banker. I am informed that you are about to open a bank; and I beg to request that our house may be allowed to transact your London business." None of these candidates were elected, but a correspondence was opened with another banker in London. These same country bankers, who have kept a deposit of cash in the hands of the London banker, the value of which is equal to four hundred pounds a year of clear income, and who never, in the whole course of their business, except once during the panic of last winter, asked for any accommodation in the shape of loan, discount, or pecuniary favour of any kind, have recently had occasion to change their London correspondent. They are known, by all the bankers in London, to be men of undoubted wealth and extraordinary prudence. The sum they proposed to leave with their London banker, for doing their business, is worth £ 400. a year. Yet so changed are the times, as regards money matters, that these men tried, ineffectually, three London bankers, before they could accomplish their purpose of changing their London account. A London banker told me that he had actually refused the offer of accounts with eight country bankers, although every one of them tendered an adequate deposit of cash, or a sufficiently profitable account.

This will convey an idea of the change in banking affairs, in London; and though I am not acquainted with any circumstances in the country which mark the same reluctance for increase of business, upon principles equally safe, yet I affirm, upon a knowledge of these matters, that the change in the country has been of the same kind, and in a corresponding degree.



All country bankers are endeavouring to lessen the accommodation which they have been accustomed to render their customers. Few are desirous of increasing the number of their accounts. Accounts are very rarely solicited to be brought to a bank; and when applications are made to bankers, to accept fresh accounts, they must be backed by a reputation for property, discreet management, and prudence, in the applicants, or they will have no chance of success. Much greater watchfulness, in regard to the habits of business and of life, is exercised by the bankers over the persons with whom they have connexion in business. Those country bankers who deviate from this rule are marked, both by their rivals and the public, and a sort of proscription, as to their notes and circulating credit, obtains among all the prudent and intelligent men of business. So strong is the influence of an opinion derogatory to the discretion of a banker, that a trader cannot, without injury to his own credit, keep an account with a banker, even of reputed wealth, who is known to conduct his affairs in any manner imprudently. And the reverse of that takes place. A trader who keeps his account with a bank that is known to be conducted upon sound and prudent principles, has in that circumstance a source of credit. This is altogether new in the system of country banking, and has grown into operation since the year 1815. Many large traders closed their accounts with their old bankers, resenting what was termed their illiberal conduct, in withholding sufficient advances; but I have known many instances of men of large property, and who tendered lucrative business, being wholly disappointed in their endeavours

to obtain new accounts, on terms so good as those with which they were disgusted when proposed by their old bankers. There is now a general disposition among all bankers, to uphold one another in the exercise of prudence. This was the state of things in December last, when the most extensive failures and tremendous convulsions in the monied world occurred, to give undue force and violence, to principles in themselves salutary.

It was then obvious to all considerate men, whose minds were guided by experience and knowledge, that the contraction of the circulating medium would be sudden, severe, and ruinous in its consequences. In this juncture it was as much the duty of every man of influence to aid in counteracting the rapidity and violence of this contraction, as it is that of a conductor to place a drag chain on a machine, which would otherwise go down hill, to be dashed to pieces by the force of its own momentum. The bank directors know nothing, practically, of country business; but their general knowledge enabled them to appreciate the state of things, and they made, consequently, a judicious and vigorous effort to counteract the evil. If the government, at this juncture, had participated with them in the same sentiments, and had suffered the session to pass without increasing the pressure, the elastic force of the national industry would sooner have recovered its power, and the pursuits of the industrious would, by means of reviving confidence, have been resumed early in the year; instead of the same effect taking place in August, when the energies of the country had been so injured as to render perfect restoration impossible.



The principles of greater prudence and circumspection, by which country bankers now manage their affairs, were introduced into practice in the best possible way; *viz.* by experience convincing the bankers that they were necessary for their own security and advantage, and for the public benefit. It was inevitable, that a business of such magnitude and importance, requiring great intelligence and constant attention, should, in its early stages, have been sometimes mismanaged and deranged. Regulation, which would not injure its influence upon industry, and supervision in regard to its future operation, was all that it needed from the government. A knowledge of the manner in which it was intertwined with every operation of industry, in the country parts of the nation, would have withheld ministers from proposing laws destructive of its influence and effectiveness, when followed up by other enactments, which the principle that dictated those laws will require, to render its operation consistent and perfect. I observe indications, since the dissolution of parliament, which create in me an apprehension, that, without a knowledge of its merits, there is a settled resolution ultimately to destroy the business of country bankers, to substitute what is considered to be a better system. Such an effect may, indeed, be produced, without a settled purpose, by the enforcement of measures, the operation of which has not been properly estimated.

Let us therefore proceed to examine, more particularly, how this system of country banking is connected with industry, and is promoting production.

Country bankers receive money, on interest, from those who have too much, and lend it to those who



have too little. Avoiding the errors of the imprudent, of times past, they will not give four or five per cent. interest upon loans, when they cannot themselves, without difficulty, lend money at five per cent. interest securely. They will not, as some of them have done heretofore, eagerly seek to borrow money, but they will take it when it is brought; and, if left in their possession, for a stipulated time, will give interest at the rate of  $2\frac{1}{2}$ , 3, or  $3\frac{1}{2}$  per cent. according to the facilities that they possess of lending it out again upon a proportionate rate of interest, upon good and convertible security. Then, in regard to lending money, the more difficult branch of their business, they employ it partly in public securities, but more generally in discounting the bills of traders, manufacturers, merchants, and bankers.

In order to show how the country banking system operates to increase productions, let us take an example or two from the practice of a banker situated in an agricultural district, and one from a banker connected with manufacturers. An agricultural bank is resorted to, more for depositing surplus capital therein, than for mercantile business. The banker is, however, desirous of lending in his own neighbourhood, if he can do so securely; and the only means he has of lending without danger, as regards security or convertibility, is by discounting the bills which the cornfactor, miller, woolstapler, cheesemonger, or hopfactor, draws upon the London factor, for the commodities which he collects and transmits; or the bill which he receives, for the same commodities, from the manufacturing districts. These bills cannot, however, at all times, be received in a regular manner; but to possess them,

depends upon many causes, such as contrary winds, delays upon inland navigation from frosts or floods, &c. &c. which may delay the receipt of the goods, and consequently the remittance of the bills from the manufacturing parts, for weeks or months, and in the same way protract the time at which the trader would be permitted to draw upon the London factor. Still the farmers are accustomed, and expect, to receive payment for their commodities in the notes of the country banker, on delivery. To accomplish this, the trader opens a current account, on interest, with the banker, which, by mutual agreement, enables him to overdraw his account, and to obtain bank notes whenever the farmer wants them. This sort of account is a perfect contrivance in economy, to make capital productive. By receiving or paying the smallest sums for his customers, and charging interest for or against himself, upon every entry to the end of the year, the country banker is necessary to make the operations in commerce work, without waste, freely and effectively; and he who would destroy the country banking system, to adopt that of branch banks, which allows no such facilities, ought, consistently, to make sledges again, the only machines for conveying men and things to and fro on the land, because the polished well oiled axle causes the carriage to be propelled sometimes in a dangerous manner.

Without this contrivance, the trading in these commodities, in the country, will be either a sort of monopoly in the hands of a few overgrown capitalists, who must have larger profits upon their transactions, to cover the loss sustained by keeping an abundant



capital always ready, and part being thereby wasted in unproductiveness; or the grower must be at the trouble of selling his produce to the consumers: in which case, a man must, perhaps, take a journey of one hundred miles, to sell his commodity. The expenses of the journey, on account of the small amount to sell, greatly lessen the profit: he must send his horses thirty miles to deliver the thing sold, instead of five miles to his neighbour, and, frequently, he must take a second journey to obtain payment. Nothing is worse, in farming concerns, than difficulties and obstructions in disposing of produce, apart from the increased expense incurred thereby, because they compel the farmer to be frequently from home, to effect sales; and if there be any one concern of life, that requires, more than all others, the everyday attention of the master, it is husbandry. Thus we see, that the banking system of England decreases in agriculture the cost of production, by affording facilities for the sale of the produce, and by economizing the time of the farmer, his servants, and horses; and it also affords the ready means of making small savings of capital productive, by allowing interest upon deposits, of either large or small sums.

But it has a more direct effect, as in the following case. An industrious farmer, of a respectable family, has just married and taken a farm. The united portion of the young farmer and his wife furnish just capital enough to stock the farm in the old mode of farming; and he may have his crops of grain, scanty, but crops in regular succession. The new mode of farming, however, requires that he should have, in ad-



dition to his crops of grain, green crops of turnips or cabbages, or mangel wurzel; cattle in the winter to eat them, and to make manure to increase the crops of grain. The young man sees the advantage clearly enough, but where is the money to come from? His uncle has £7000. in the bank in the market-town: away he goes to borrow some of it. His uncle, however, denies the applicant: he will keep his money where he can have it at a short notice, in case a farm should be offered for sale at a cheap price. The young man then consults his wife's brother, who is a few years older than himself. "I advise you," he replies, "to go and ask the bankers, who have always so much of your uncle's money. They lent me all that I wanted when I entered upon my farm, and I paid them the last back again two months ago." The young man goes to the bankers with a recommendation, and a candid explanation of his circumstances, from his brother in law. The bankers hesitate: they do not like to lend their money, for an uncertain period, to remain *dead*: it is contrary to their rules. But the name, from the uncle's deposit, and from general reputation, is in good savour at the bank, and so they oblige him. In this case, the productions of a farm are increased, perhaps more than one-third, by a country bank causing a new and more productive system of husbandry to be pursued. It can hardly be necessary to state any more, to prove that this effect is produced in every department of productive industry. I will show one operation in manufacturing concerns.

A young man has, when starting in life, just capital

sufficient to fill his mill with machinery, purchase his looms, &c. and buy raw materials enough to commence operations; but all the processes of manufacturing, dyeing, finishing, sale, and transit, cause five or six months to elapse, before any return in money can be derived from the wrought fabric. He makes an application to a banker, for an advance of money to pay wages and current cash expenses, till he can have a return in bills for his goods. The banker knows the reputable character of the family of the young man: many of them have prospered under his observation, and some of them by his direct instrumentality; and the applicant has a creditable character for prudence and diligence. There is no fear but that one of that stock will attend to the main chance. Therefore, the banker, after saying that he avoids taking any new accounts with parties who require a permanent advance of cash, a rule from which he now hardly ever departs, consents, from the respectability of the connexions, and being convinced, by candid, personal explanation, that his new customer has a fair prospect of success.

In this manner the country banking system aids production. It also tends to render prices uniform, and equalize the employment of labourers. In the department of agriculture, it serves, in some measure, the place of public granaries, by enabling those who have credit with a neighbouring banker, to keep their produce over a period of low prices, when sales would yield no profit upon stock. Corn is kept in the country, under the personal inspection of the owner, far better than in warehouses.



In mining and manufacturing concerns, it enables the masters to continue to produce and to manufacture in the absence of immediate demand, upon a fair calculation, that the demand will, within a certain time, arrive, to take off the whole of an accumulated stock. Demand may be periodical; or it may come after intervals of unequal duration; or it may be interrupted by obvious circumstances, which will not prevent it recurring at no distant day. The proprietors of mines and manufactories weigh these circumstances; and being loathe to discharge their workmen, continue their operations, (perhaps on a diminished scale,) over a long period, without a demand. Nothing but the country banking system, which allows these parties to borrow sums of money, for a period not exactly defined, could enable them, generally, to do this. The stoppage of a manufactory, and discharging the hands therefrom, is in many cases so detrimental to the owner, that nothing short of absolute despair, as to renewed demand, or inability, from want of capital, to continue his operations, could induce him to stop altogether. The hands have been trained to make his particular goods in his particular manner; new hands may make the goods so differently, as to destroy the reputation of the master, and put to flight all his best connexions. I knew a man of property, who, after trying to bribe away the servants of his rival, lived for months, at a distance of two hundred miles from his family, for the sole purpose of picking up all the information he could, in alehouses, from workmen, in regard to the mode of making particular fabrics, which his rival had made better than he, and thereby com-



manded a market. Examination and analysis of the perfect piece afforded him no adequate knowledge. I have no hesitation in affirming that, under favourable circumstances, the stoppage of a mill by a manufacturer, is more injurious to him, than it would be to a farmer to work for two or three years without obtaining a farthing of profit towards his rent; and in four instances out of five, it cannot be done without absolute ruin.

Therefore, the country banking system, under proper regulations, would tend to equalize employment—to economy in the uses of money, by lending or borrowing small sums on interest—to prevent waste in the efforts of industry, by supplying temporary aid, to render complete, an undertaking which, without such aid, must be incomplete. All this will be lost, if the Bank of England system prevail, to the exclusion of the other.

What amount of capital may, in England, be made available for reproduction, by means of the open cash accounts of country bankers, it would be difficult to estimate. It consists, in a great measure, of the savings of money lent to bankers on interest, by capitalists who are not themselves engaged in active pursuits. The amount so employed, therefore, by any particular banker of established credit, depends upon two circumstances; the amount of the accumulated capital of his neighbourhood, and the extent of profitable employment afforded for capital amongst his connexions. I could mention several bankers, each of whom has at times lent to his customers more than half a

million sterling. I have been acquainted with some of the circumstances of three country banking firms that stopped payment last December, who had, collectively, at the time of their stopping, more than £500,000. owing to them by the public, in these cash accounts. Two of these firms have since paid in full, and are pursuing a reputable and successful banking business. The bankers who stopped payment, however, were not those who either borrowed or lent the most money. On the whole, I think, that, to take forty millions as the amount that is at all times ready to be advanced by country bankers to the public, in cash accounts, is a low estimate. There being more than seven hundred country bankers, it allows less than £60,000. to each banker, as the average amount of the sum that may be employed in this manner\*.

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\* The inhabitants of Leicester, Nottingham, Sheffield, and Leeds, have experienced great reverses in their circumstances, during the last twelve months, and considerable distress has existed in some of these places. Each town contains upwards of 30,000 souls. The country banking system is in full operation in all of them, and its principles are well understood. It is owing, I believe, solely to that circumstance, that the distress was less severely felt than in some other manufacturing towns; and it affords, upon the smallest favourable change, the most direct means of renovation. The reflecting and discreet bankers in these places, know that the prosperity of their respective neighbourhoods has caused their own wealth, and they wisely do all that prudence will permit to sustain that prosperity. The following notice, extracted from the "*Leeds Mercury*" of October 14, while this pamphlet was in the press, will cast some little light upon this matter.

"The *Wakefield Journal* of yesterday, contains a paragraph stating, that 'the want of circulating capital is evidently one of the great re-



## ON THE STATE OF THE CURRENCY

*In January, 1826.*

Before I proceed to show, that no one acquainted with this subject, in all its practical influences upon the habits of industry, and the state and appropriation of capital, can perceive *the possibility* of the Bank of England rendering similar benefits to the public, to those rendered by country bankers, let us look, for a moment, at the state of this matter, before the measures in parliament were adopted in the last session.

The effects of the panic, it was then obvious, would be great, upon the value of all existing capital, and upon the means of creating fresh capital, by the operations of industry. Great derangement in the money concerns, of all men who had engagements for time, or who were connected with credit in their dealings, must, inevitably, succeed to such a convulsion. Every considerate man, who appreciated the consequences, manifested anxiety to prevent the calamity from spreading to that degree, that capital would be so disturbed and broken up, as to cause the operations of industry to stop, and injure, mortally, the means of renovation. Who

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tarding causes to the progressive improvement of trade; and that 'few or none of the banks will make any advances, even to the best houses.' On which we have to observe, that the generality of the banks of the West Riding are by no means acting upon these narrow and illiberal principles; but that, on the contrary, they are fostering the rising prosperity, by making the usual advances, in all cases where it can be done with that prudence which they owe both to themselves and to the public."

at that crisis could have supposed it possible, that the government were so little acquainted with the mode of working, and the effects of the paper currency amongst the active classes, as greatly to extend and aggravate, by their proceedings, an inevitable evil? Public opinion, directed by writers who were either ignorant or malignant, intolerant or base, prevented deliberation, and denied all fair and candid investigation of the matter. I think the foregoing survey, imperfect as it is, and greatly inadequate to the occasion, does exhibit this subject to be that, which, above all others, requires patient inquiry and anxious consideration, in the room of a confident belief in the infallibility of a judgment formed and made up. A few of the country bankers, alone, could explain the state of the country, as it is connected with their system of banking; but a doubt was thrown, either upon their sincerity, or upon the soundness of their judgment, because they are liable to be warped by self interest. A case which, in point of strength, far exceeds that presented by Scotland, could be made out, to stay proceedings, till a mature judgment had been formed upon correct information. And justice demands that, as an inquiry has been granted to Scotland and Ireland, England should be allowed to plead her cause. Without such an inquiry, it is plain to my understanding, that the country banking system must, in a few years, by the combined operations of laws and circumstances, be destroyed in England.

The system of country banking has been growing up for generations. All men, now living in the country parts of England, capable of directing or managing any



affairs of business, are, in their habits, identified with it. They would as soon expect a tearing up of the public roads, because they afforded the means of bringing the produce too rapidly to market, as the injury or destruction of a system, by which all their calculations, in regard to capital for conducting their affairs, have been formed, and all their operations in industry have been arranged. And to expect that this system can be destroyed, and all the private money engagements between individuals be fulfilled, and the same amount of rent and taxes be paid, is as reasonable, as it would be to expect that, if the canals were filled up, and all the carts and waggons of the country burnt, coaches and pack horses could as well convey the commodities to market. If there be no intention absolutely to destroy, greatly to injure the system will have the same effect in proportion. All who know how difficult it is entirely to break through habits long acted upon, must be aware that the established connexions and modes of business amongst country bankers, would prevent many of the concerns of individuals from becoming deranged in an irretrievable manner. Years must elapse before the small note bill can go into full operation, or the rival establishments be fully organized. The English bankers, too, implicitly rely upon the principle of equal justice, which is due to all the king's subjects, for having the same advantages continued to the English public, as have been conceded, after full inquiry, to the Scotch and to the Irish; yet, with these circumstances, to break the effect of the catastrophe, and which prevented many of the existing establishments of industry from being blown up, the

ruinous effects have been so extensive, as to cause deep and anxious thought, amongst all considerate men, as to what may be the ultimate consequences of continued perseverance in error, respecting the currency.

At the meeting of parliament in February, when it was obvious that the contraction of the currency would be great, nothing could have prevented all men of influence and power from uniting with the Bank Directors, to ward off a portion of the evil, but that unfortunate habit of looking at this subject through a microscope, which presented to the vision, with magnified effect, nothing but bank notes, country bank notes, and metallic currency, and entirely excluded any extensive view of the subject. The everlasting round of the *inner* circle, upon which is marked, prices of gold and silver, exchanges, bank issues, and country bank notes, has been examined again and again; and able men have been summoned, some to explain whatever appertained to this point of the index, and some to that: all who directed and conducted the investigation, being at the same time apparently in ignorance, that there was an *outer* circle that they had never looked at, in reference to this inquiry, of infinitely more importance, viewed in connexion with the industry of the people, and the prices and amount of the productions of British industry.

That this *outer* circle, describing the amount of bills of exchange, is that alone upon which is indicated the coming storm, and approaching danger, is manifest. Therefore, to conduct and terminate an examination respecting our currency, without a minute



investigation of the state of circulating credit, will leave us in *utter ignorance of our actual standard*. It is now partially admitted, that the legal standard neither regulates our paper currency, nor measures precisely its value. I have endeavoured to show, that *neither gold coin, Bank of England notes, nor country bank notes is virtually our standard*: but that *bills of exchange alone form our standard*. By knowing in what degree the amount of this part of the circulation is *plus* or *minus*, from any given point, we may ascertain, and by nothing else can we fully ascertain, the tendency to depreciation from excess, or the degree of approaching difficulty from contraction, of the circulating medium. It would appear, therefore, that we have committed a great error, in attempting to destroy the effectiveness of country bankers, to whom circumstances have eminently given the power to regulate this, our standard; and who alone can, with the concurrence and judicious assistance of the government, be enabled to regulate it best for the public interests.

Speculation, which gave rise to the proceedings in parliament respecting the currency, was carried last year to an unjustifiable extent; *but it is a remarkable fact, and pregnant with instruction, that* (except amongst bankers) *all the large conspicuous failures which occurred between July, 1825, and April, 1826, were among persons who had no connexion with English country bankers, and who resorted, not to country bank notes, but to those of the Bank of England and the Scotch bankers, to keep up the excess of their credit circulation, which was the consequence of their amazing speculations. These failures occurred amongst*

merchants and booksellers in *London, Liverpool, and Edinburgh, where English country bank notes are never used.* To confine our observation, however, to those persons and occurrences which attracted the most notice, would not be doing justice to the subject. If the circumstances of *all the parties who failed within that period* were examined, it would be found that the far greater proportion of *failures was amongst persons who had most to do with bills and bank notes, and least with country bank notes.* Consequently, we find that the failures of manufacturers were the greatest and most numerous amongst those who wrought up cotton, silk, hemp, and flax, *because they had most concern with bills*; whilst the failure of those who wrought up sheep's wool, (whether in the west, east, middle, or north of England,) leather, iron and other metals, were, in the comparison, small in numbers and amount.

This brief reference to persons and trades will *show, that to English country bankers does not attach the charge of fostering speculation, and inducing failures.* But I can, *by a reference to places,* establish the position, not in a stronger, but in a more *unanswerable manner*; because this kind of evidence is more conspicuous and *comeatable.* I will take, proceeding in a zig-zag direction throughout England, a few large places, distinguished for manufactures or considerable traffic, where country banking has been the longest time established, and where the system is well understood and beneficially practised; and I confidently ask any one acquainted with the merchants, manufacturers, and traders in Newcastle, Kendal, Leeds, York, Hull,



Lincoln, Sheffield, Nottingham, Derby, Leicester, Birmingham, Wolverhampton, Kidderminster, Worcester, Bristol, Taunton, Yeovil, Exeter, or Norwich, to describe the condition of these places, as to failures, during the late crisis. I select them, because they are all towns of considerable business, where country banks have been long established, and where, with some exceptions, they have, of late years, been conducted upon sound principles. Great distress existed, in several of these places, amongst the working classes; but *it is notorious that, in many of them, not a single failure took place during, or in consequence of, the late convulsions; while in all, the failures have been very few, compared with other towns containing the same number of inhabitants.*

I ask all those who deny my position that country banking has less tendency to promote speculation, and induce failures, than other systems of banking, *to prove, by a reference to the failures in London, Liverpool, Lancashire, and all Scotland, where their favourite Bank of England and Scotch notes exclusively circulate,* that the Scotch and Bank of England systems of banking have less tendency to promote speculation. If they fail to do this, what can be thought of the wisdom of the late proceedings in parliament, respecting country bankers and Scotch bankers?

To all acquainted with the subject, the fact that the great mass of mercantile failures occurred within six miles of St. Paul's, within sixty miles of Liverpool, and in Scotland, is as notorious as that corn grows in Sussex, and sheep graze in Kent. Therefore, this bare sketch, in reference to failures, of persons, trades, and places,

affords an indication so plain and unerring, that any man, who can distinguish sunshine from clouds, will at once see the truth.

That the system of credit in this country had been greatly abused, is true. But it was in a course of gradual amendment. Whoever was practically acquainted with the state of credit for many years previous to 1815, and compared it with the state of credit from that period to the close of 1825, knew that the change for the better, in regard to England, has been as great as any man would desire, except those who advocate violent and ruinous changes. This it is that creates alarm, in the minds of all considerate men, for the consequences, and it is a circumstance which has marked all the public opinions and proceedings in regard to the currency and banking affairs;—knowledge of a disorder is first obtained at a time when the disorder has entirely passed away, or has changed its character. For an operation in the human constitution, we require anatomical and physiological knowledge, that the instrument may be directed, not into the vitals; and the consequences, to the remotest parts of the frame, may be duly appreciated. In a measure which may deeply affect the vital energies of industry, we ask that well directed and unprejudiced inquiry may take the place of ill founded confidence: that knowledge may precede legislation, in order that the effect of the new laws upon the national prosperity may be previously known and wisely considered.

Mr. Baring, who with his extensive knowledge on most parts of this subject, had not, I believe, a full and perfect comprehension of the manner in which the



industry of the country was connected with different portions of the circulating medium, said, during the convulsions of the last winter, that the one thing required was *confidence*: he meant, principally, confidence in the merchants and bankers of London and Liverpool. Mr. Baring did not then imagine it possible that ministers would, in a few weeks, propose measures which would have the effect of prolonging that disastrous state of things, and occasioning its recurrence—measures which would destroy confidence and circulating credit in every part of the kingdom, and extend ruin amongst classes of the community, of far more importance to the national prosperity, than all the recently ruined merchants and traders of London—that would cause the operations of industry, in almost every department of manufactures, to be continued for a whole twelvemonth, without producing any return of profit to the capitalist; and would so paralyze the whole industry of the country, as to entail consequences of indescribable evil to the kingdom.

At a time when a hundred bankers had stopped payment, and thereby taken out of circulation a vast amount of paper credit, which had performed the functions of capital, and been made available for production, in the same manner as that same kind of paper credit had been aiding the operations of industry, and causing production, for thirty years—was it wise to enforce measures which would still more contract and reduce, and render the energies of production powerless? Could we, at such a juncture, afford to relinquish the whole of the forty millions of capital derived from the country bankers' current advances to the

public? Could we safely give up nine-tenths of that vast undefined mass of circulation in bills, the amount of which exceeded all the metallic circulation of Europe? And if these general considerations failed to bring conviction to the minds of men in power, were there no particular circumstances at this period, which must, one would conceive, bring home to their understandings a doubt of the propriety of so hazardous a policy? Will the free trade measures, if successful, open no field for the employment of British capital? We have passed laws which tend, unless they be counteracted by errors in managing the complicated machine of the currency, to secure to us a great share of the carrying trade of the world; "for which purpose great capitals are requisite." And if, in this kind of commerce, "wealth, in the first instance, creates the trade, and not the trade the wealth," as Mr. Huskisson truly asserts to be the fact, where can be discovered the consistency, or the wisdom, of enacting laws which must deprive us of that which was as effective for this purpose as wealth?

To my apprehension, the modes adopted for relief when the evil was felt, present the same evidence of the subject being ill understood, as those adopted for contraction and correction. Of these, I shall now notice only the advances of money upon goods, &c. by the bank. All the persons interested in borrowing those advances, whose sentiments I have had an opportunity of collecting, assert that they regretted the advances were ever taken, and that these loans have been productive of evil and not good: a necessary and inevitable result,



owing to the terms on which the money was lent, and the manner of exacting repayment.

The subject is of momentous import, and it cannot be disposed of without thorough investigation. It is manifest that the measures of regulation which have been decided upon, must utterly fail to effect their intended object. If there were no other species of paper circulation than Bank of England notes and country bank notes, they might accomplish their designed purpose in the manner proposed; but so far from the whole question of paper currency being compressed into a consideration of Bank of England notes and country bankers' notes, these, conjointly, amount to very little more than a tenth of the whole. There are 700 country bankers constantly issuing notes; but there are 700 country bankers also issuing, constantly, internal bills of exchange \*, payable after date, the amounts

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\* "One of these bills (*foreign bills of exchange*) would often pass through several hands, and be the medium of payment in a number of transactions, before it was finally discharged by the person on whom it was drawn. To this extent, it performed the precise functions of paper money, and led the way to the further use of that important substitute."

*Mill's Elements of Political Economy, page 106.*

Mr. Mill is one of the most satisfactory writers on this science that I have read, because he is able and perspicuous; his style simple, and well adapted to convey instruction; and his meaning is not involved in endless repetitions, from an affectation of profundity.

This is not the proper place to point out errors in the writings of this gentleman, or those of any other; but as he has, in animadverting upon a doctrine of Mr. Hume, fallen into what I deem a

of which, in the agricultural districts and near to London, is small—in the commercial, mining, and manufacturing districts, immense. And besides these bills of the

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fallacy, upon a part of the subject, connected in a peculiar manner with the object of this letter, I must be pardoned for adverting to it.

Mr. Hume ascribed to an augmentation of money the power of increasing productions. "This doctrine," says Mr. Mill, "implies a want of clear ideas respecting production. The agents of production are the commodities themselves, not the price of them. They are the food of the labourer, the tools and machinery with which he works, and the raw materials which he works upon. These are not increased by the increase of money: how then can there be more production? This is a demonstration that the conclusion is erroneous at which Hume has arrived."

It seems to me that Mr. Mill here overlooks the first effect of an increase of money, which undoubtedly enables the producers to augment their stock of tools or machinery; but in affirming or denying, propositions like this, it is the best to begin, in an elementary manner, with the first motion, and trace the effect through every operation, till it has completed the circle.

Suppose ten men to take a portion of land, to cultivate by spade husbandry, on condition that they find all the tools themselves, the owner of the land engaging to find them food, clothing, seed, and all other requisites, excepting tools, for one half of the gross produce. Their whole capital, however, consists of a guinea, which enables them to purchase spades, &c. just sufficient for five men; and they have no other means of getting tools for the other five. In this difficulty they turn bankers, and create a note for a guinea, payable at a time when their products from the land will be matured and marketable. They take the guinea and the note to an ironmonger, to buy spades, &c. for the whole ten. The ironmonger has no objection to take the note at the same value as the guinea, because the iron master will take it of him for iron; who will take it, because the coal owner will take it of him for coal; who will take it, because the farmer will take it of him, for corn for the horses that draw the coals; who will take it, because it will become due at the



country bankers, there are tens of thousands of traders constantly issuing the same kind of paper currency. I have said that this part of the circulating medium was

exact time when the rent of the land must be paid, upon which the corn grew, and the landlord will take it for that rent; and the land owner finally exchanges the note for potatoes, which he buys of the ten men, who have been enabled, by means of issuing the note, to produce a quantity for market, which could not have been produced by any other means.

The maker of tools might not have been able to sell the spades, &c. on a book credit: without the payment of the note, which gives the iron-master another security, he might refuse to sell the ironmonger an additional quantity of iron, and so on throughout the circle.

It appears to me to be a fallacy, that most writers on this subject adopt, that increase in prices, of all commodities, follows immediately after an increase in money. I believe that increase in prices is scarcely perceptible at all for a considerable time; and when an augmentation of money begins to produce effect upon prices, its influence is partial, and confined principally, either to the public funds, or other public securities, or to such commodities as are most commonly the objects of dealing and speculation; and that in all other things its influence is small, for a long period after the money is augmented.

It is obvious to me, that an increase of money operates so much more immediately and extensively in augmenting production, than in increasing prices, that its influence in that way may have been continued over a whole year, and many of the productions of industry be matured and marketable, before its effect in augmenting prices is great or generally perceptible.

Even in Great Britain, stocked as every town and populous village is with middle men and dealers, there is no remarkable increase in prices, till the great dealers begin to appropriate large masses, for the purpose of profit, by running up prices. A quick transfer of commodities, by a rapid course of dealing, has far greater immediate influence in causing prices to rise, temporarily, than an increase of

performing the same functions as all the notes of the Bank of England and country bankers, except the

the currency. And this rapid course of dealing *might* commence, and be continued for some time, upon mere credit, fixed in the books, and not circulating in bills; and consequently, without the increase of a single guinea in the circulating money of the country.

The doctrine of the quantity of money and of commodities bearing an exact relative value to each other, though true in the abstract, is false when applied with strictness to practical dealings amongst men. It is true when applied to a long course of years, but it is false when applied to a short period only; for example, to a period of one or two years. If it were strictly and literally true, that the "first man who came with an additional quantity of money into the market, to purchase commodities, raised the price of commodities, because he came with an additional quantity of money," how comes it that the prices of all commodities are not proportionately raised by an increase of money. The great fluctuations in prices, however, take place in those commodities subject to the monopolizing influence of great dealers, who accumulate masses for the purpose of operating upon prices. In those commodities, the value of which is small, and which are not so subject to the influence of dealing, prices are not liable to great changes. In the remote parts of Lancashire, one of the most densely peopled counties in the kingdom, and the wealthiest county, there has been comparatively very little variation, for fifty years past, in the prices of poultry, and the produce of orchards, &c.

Appreciating highly as I do the labours of those men who endeavour to inform the public on the most difficult and important parts of political science, Mr. Mill must pardon me for suggesting, that when he next imagines he has given us "a demonstration that a conclusion is erroneous," it would be as well if he were to go over the ground again; and by examining the influence of time—of habit—of dealing, upon prices, he would exercise a little more reservation in deciding, without explanation, that "the moment an additional quantity of money does come in contact with commodities, the prices are proportionally raised."



one and two pound notes. Bills, payable after date, circulate amongst the masters of all persons engaged in agriculture, mines, manufactures, and commerce. They are scarcely used at all in payment for labour; but they are, I believe, used in the country, with other paper currency, *to pay for every production of labour, except the produce of gardens and orchards, and the nets of fishermen on the coast.* And in the north of England, the amount of all other species of currency, including coin, would not, in the usual course of business, equal one twentieth part of the amount of circulating bills\*. This state of things has existed, with but little variation, for thirty years past; a fact

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\* Being aware how utterly unprepared most men in public life are to appreciate the magnitude of the amount of the paper currency of this kingdom, I have been careful in keeping all my estimates and statements respecting the sums, which were intended to convey correct information, greatly within the truth. On being summoned to give evidence to the committee of the House of Lords appointed in the last session, to enquire into the state of the circulation of promissory notes under £5. in Scotland and Ireland, I wrote to Mr. Roby, of the firm of Fentons and Roby, of Rochdale, one of the most skillful and intelligent bankers in the country, desiring him to inform me the amount of local paper, payable on demand, in that neighbourhood, and the relative amount of circulating bills. He answered, that he estimated the amount of the local one and two pound notes, circulating within twenty miles of Rochdale, to be, on the first of December, 1825, £590,000. and that the amount of circulating bills was, as compared with Bank of England notes and coin, fifty for one. (*See Lords' Minutes of Evidence, 294, 295.*) I own that this statment staggered me, by the immensely large proportion given to bills; but I have since had an opportunity of ascertaining that this gentleman made his statement upon an accurate examination of the receipts in his own bank, for years past.

which should be constantly borne in mind, during any consideration of this subject.

If there be no means resorted to, for the purpose of counteracting the effects of the blow which has been struck at country bankers, and if that blow be followed up by others which appear to be contemplated, many of the existing establishments, in almost all departments of industry, will be so crippled, by reason of the diminished capital being inadequate to keep the works in full operation, and all the parts free from waste, in a state of corresponding effectiveness, that capital will no longer yield to the owners a profit; and, at the same time, it is possible that the rate of profit may be augmented, to those who possess large and superabundant capitals. You cannot destroy the power of country bankers, or materially abridge their power, without causing amongst the secondary traders and manufacturers, (an interest, in the aggregate, far exceeding all others,) great and unprecedented ruin in every part of England, and such an injury to the productive energies of the country, as will never be repaired\*.

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\* The information upon which I have grounded the opinions expressed in the course of this letter, has been derived principally from private sources. Apart from these private sources, the state of the matter is so notorious, as to render it scarcely necessary to adduce any confirmation of the case from more public affairs. I select, however, one or two facts, from sources not generally made public.

The gross receipts for tonnage, upon the Leeds and Liverpool canal, were,

	£.	s.	d.
For the first half year of 1824,	49,891	10	4
Ditto ditto ..... 1825,	51,565	10	6
Ditto ditto ..... 1826,	44,114	15	7



Look at the vast increase of the manufactures of our rivals, even during the period of alleged over production, and say if we can yet afford to part with any of

The principal article carried upon this canal is coal, one of the first necessities of life. The population of the country through which the canal passes has been rapidly increasing. It is not likely, therefore, that there would be any falling off in the carriage of coal for domestic purposes. And this is strikingly confirmed by the state of the facts.

Tons of coal carried upon this canal to Liverpool.

	<i>Tons.</i>
For the first half year of 1824,	108,872.
Ditto ditto ..... 1825,	115,558.
Ditto ditto ..... 1826,	116,486.

While the tons of coal carried upon the same canal into Yorkshire, during the same period, were

	<i>Tons.</i>
For the first half year of 1824,	49,314.
Ditto ditto ..... 1825,	55,506.
Ditto ditto ..... 1826,	37,158.

There can be no doubt that the whole falling off in the receipts for tonnage, was upon merchandise, and upon coal for the manufactories.

Similar results may, no doubt, be derived from an inquiry into the receipts from all the canals and roads in the manufacturing districts. The receipts of the Rochdale and Manchester canal, for the year ending 1st October, 1826, have fallen off upwards of twenty per cent.

The tolls of the Rochdale and Bacup turnpike road, which let two years ago for £1800. were recently let for £1300.

An old commissioner of the road from King Cross, near Halifax, to Burnley, with a branch from the same road, at Todmerden to Littleborough, near Rochdale, told me, that the tolls of that road had increased annually, for twelve years past; and that never, till

the means of giving effect to the operations of industry. Consider the great increase of the export of materials for manufactures, not of cotton and drysalteries only,

the present period, had a bad state of trade caused a decline in the amount of the receipts of any year, from the amount of the preceding year. These tolls, he said, were put up to be let, some months ago, and the highest bidder offered less than £2600. although the same tolls had been let, for years previous, at £3600. per annum. This falling off must be wholly in the traffic of the numerous and extensive manufacturers living in the valley, through which the road passes, because this road is becoming a great thoroughfare. Four coaches now pass along it twice a day, or fifty-six coaches per week, and not one daily coach passed along it three years ago. These coaches becoming more numerous, in a state of bad trade, is in some degree a confirmation of a Lancashire observation, that the worse the trade, the better the coaches are loaded, and the worse all other public carriages; which is undoubtedly true, to a certain point, and for a limited time: so many people go from home to secure debts, obtain payments, force sales, and assist correspondents in difficulty.

The receipts from roads and canals afford the best *public* evidence of the general state of the interior traffic and business of the country. The receipts of the various mills to which the smaller manufacturers resort, in the clothing districts of Yorkshire, with their wool, to have the first processes of the woollen manufacture completed for hire, is a more direct evidence of the state of that particular manufacture, and of the people who are employed in it; but these mills are not *public* concerns. Sometimes, however, the state of the trade at these mills is reported in the public papers; and I extract the following paragraph relating to it, from the Morning Chronicle of October 23, 1826, because I believe it contains a perfectly correct representation.

“HUDDERSFIELD.—Our accounts of this week are very gloomy. The fancy trade is nearly extinct, and that of woollen cloth is principally in the hands of a few capitalists, who appear to be prospering, while the lesser manufacturers are sinking into decay. The sales on Tuesday last in the Cloth Hall were considerable, but the prices are



but also of foreign sheep's wool, which was, till lately, rarely exported, and never to the United States of America. Ask the people of the west of England whether, by destroying circulating credit, the woollen manufacture, the old staple of the country, affording more healthy employment than almost any other manufacturing occupation, will not be driven to other states.

Let us proceed to inquire whether the establishment of branch banks, upon the principles by which they are designed to work, will prevent the contemplated mischief.

#### BRANCH BANKS OF THE BANK OF ENGLAND.

On this subject you appear to imagine that branch banks will render, to the public, an adequate circulating medium; and all the advantages of that system of banking, which has been so deeply injured. I am of a contrary opinion. Their constitution, and the principles upon which they are to be conducted, are at variance with the established habits and modes of

not remunerating, even at the present moderate rate of the raw material. The difficulties under which the manufacturers in this neighbourhood are labouring, will be illustrated by the following fact:—A half yearly mill feast was prepared by a mill owner at Holmfirth, one day last week, in conformity with a custom which has long prevailed, at which all persons who have had work done at the mill are expected to attend, and to settle their half yearly account; and although the festive board is frequently crowded on these occasions, not a single customer attended."

business in all the country parts of England. Therefore they cannot succeed, without changing the whole practice of business, as it is at present organized and managed; and if they were successful in their endeavours to do this, it would take them a whole generation to accomplish their purpose completely.

The Bank of England will lend money; but to whom, and in what manner? This we shall see presently. At any rate, they refuse to borrow on interest. Thus, at once, they take from the community a part of the motive to accumulate capital, by increasing the difficulty of appropriating it; and if they succeed to the destruction of country bankers, they will drive capital to a distance, or to foreign states, for employment.

We have seen how the country bankers, by borrowing, on interest, the surplus money of the affluent and inert, and lending it to the active, where it would be rendered productive; became an important link to connect these two classes in mutual interest. The country banker thus became the guardian of the rich man's property, and a point of support for the industrious. The practice of the Bank of England is altogether different; and its branch banks will form no link, to connect, for the common purposes of general prosperity, the different classes of the community. Unlike a respectable country banker, who takes an active interest in the concerns of his customers, and is ready to advise them in all important matters, the branch banks will have no fellowship or communion with individuals. Their concern is with an instrument called a bill, which is made by any one. They care nothing about the private concerns of their customers: all that they want is a



good looking instrument, which they put into the scale with the same feeling as they weigh a guinea. They will not lend, as other bankers do, for a period not exactly defined; but the only mode in which they will lend, is by discounting bills not exceeding three months' date—a capital receipt for creating accommodation bills, especially in those parts of the kingdom where bills do not already form the great mass of the circulation. It therefore appears to me, that if the Bank Directors pursue their business in the branch banks, according to the practice upon which they have begun operations, their offices will be frequented by two descriptions of customers; *viz.* by senseless misers, who are too timid to use any judgment in lending their own money; and speculators, who, at any cost or any hazard, will raise capital by means of bills, with which they can carry on their trades.

I am speaking only of banks in the interior. In Liverpool a branch bank may do well, and possibly in Manchester. The habits of business; the mode of transferring goods from one to another, in great masses; the absence of country bank notes; the immense circulation of bills payable after date:—all tend to render Liverpool, and, in a less degree, Manchester, the most eligible of all places for a branch establishment of the Bank of England. Many of the merchants are in the habit of sending bills to agents in London, to be discounted. On the whole, therefore, it is reasonable to expect that business may flow naturally into these channels, when they are formed. At least, there appear none of those obstructions and impediments to success, in Liverpool and Manchester,

that one may clearly discern in almost all other places\*.

No great mischief can result *to the public*, from the establishing of them any where, *unless encouragement be given to them, by injuring the country banks*. When in existence, they may stimulate other bankers to render the greatest possible benefit to themselves and the public. Beyond this they will be nearly inoperative; for it is certain that, if the country bankers be not deprived of their effectiveness, all the best business of the country will continue to pass through the most respectable of the country banks. The Bank of England is at the present time beat in London, and wherever it has operations, by those important collectors of the surplus money of the nation, the country bankers, who offer to lend it on better terms than the Bank. And this is partly owing to the measures which have rendered it dangerous to country bankers to aid the industry of their respective neighbourhoods in the usual manner. They will now, like the Bank of England, have something in exchange for their money which they can instantly convert. This effect is, however, yet limited and partial. The time is too short, since any necessity for change was observed, for old practices to be generally abandoned.

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\* When I perceived the extensive injury which was likely to be inflicted on the system of country banks, and saw the obstructions and difficulties that would be thereby thrown into all the operations of business, I became anxious for the establishment of branch banks; but I imagined that they would be conducted upon principles adapted to the established habits of business in the country.



The branch banks may, in some instances, be employed for receiving dividends on stock, and paying the amount in the country; but they never can, upon their present system, become connected extensively with the industry of the country. Even at Liverpool, where the ground seems in some degree to be prepared for them, if the directors continue to show the same ignorance of country business, as they have manifested at Gloucester, all the valuable money transactions of the place will continue to flow through the private banks. Or a formidable class of money agents will spring up, to lend out, on better terms, some of the surplus money of the country. The bankers at Liverpool may, in the end, be injured notwithstanding, by the government directing all the vast amount of taxes collected at that port, to be remitted through this branch of the Bank of England.

In regarding the two systems, as affording aid to industry, the great and fundamental difference, however, between that of the Bank of England and that of the country bankers is, that the Bank looks alone to an instrument for its security, and the other to an individual; and this difference must operate to produce a prodigious change in the affairs of men in active life. Adhering strictly to its principles, the Bank, *to be secure*, can discount bills drawn only by or upon persons of *established* and *known* property; but the country bankers employ the money which is entrusted to them by the rich, in lending it out to persons of industry, intelligence, and good character, upon the guarantee, in part, of property *to be created* by the exercise of those qualities. Hence the intercourse

with the public is altogether different: the one is a personal intercourse, and has reference to moral character, intelligence, and habits of life; the other is an intercourse by legal forms. And whoever has witnessed the absence from trouble, the freedom from obstructions, the facilities derived from the confidence of the friendly intercourse of acquaintances, and the difficulties resulting from being permitted to act only upon the responsibility of strict adherence to legal forms, may have some estimate of the changes in money matters, which are likely to take place, by setting aside the country bank system, and establishing that of the Bank of England in its stead.

The effect of this can need no illustration, to persons practically acquainted with country business. Even in respect to bills, the inconveniences of the Bank of England system, resulting from attention to form, will be found not unimportant. A bill, however good the security, that has one day to run beyond the limit, cannot be taken. The omission of a single essential letter;—an erasure;—the bill not being accepted, or not properly accepted;—the want of intercourse with other bankers, for inquiry respecting the credit of persons, or to receive or transmit local claims;—the want of accommodation to the public in exchanging notes;—are all impediments to business, which do not belong to the country bank system. Unvarying adherence to the strict letter of instruction, which is in some measure unavoidable to delegated responsibility, must tend to drive away all respectable men, accustomed to the confidence and freedom of country business.



In regard to the Bank of England, as in other cases, our judgments have been led astray, by adopting, without consideration, inapplicable terms. The Bank of England is the bank of the state—of the town and country bankers. It is also the bank of London, and partially, in a very limited degree, of Liverpool. To this extent its notes are current, but no further. We might, therefore, as well call Smithfield and Mark Lane the pastures and cornfields of England, as call this the Bank of England, in regard to all the interests connected with agriculture, mines, manufactures, and commerce, in all other parts of the country. Its notes are used nowhere but where the national productions are collected and distributed.

Again, we talk of branch banks. Call them *offsets* from the mother tree, and the term describes the thing: offsets, planted in ground unprepared, by hands unskilled in the labour, in an uncongenial soil. Or, to have a choice of terms, call them *reservoirs*, in aid of the exhausted streams and channels, in seasons of drought, but at all other times useless. Reservoirs, not constructed in the manner of vulgar engineers, to collect from the springs and surplus water of a country; but so as to be filled by pipes, by means of a mighty engine at a distance, in the same way that the good people of London said they would bring the sea to London, to bathe in.

Remembering, as I do, with gratitude, the prompt, energetic, and wise conduct of the directors, in December last; feeling, in common with all reflecting men, that, to the exercise of their sagacity and experience, at that crisis, the country owes a great part of what remains, of power to conduct the vast commerce

of Britain; I must express my unfeigned sorrow, to see the directors in a course of proceeding, and under the guidance of principles, which will tend to lower them from that high station, which they have hitherto occupied in the minds of the intelligent and considerate part of the community.

The small note bill is one of the favourite measures of the administration. Branch banks, intended to be used now, as seamen do *fenders*, to save us from the effects of a too violent concussion, is another favourite plan. These, with the aid of bills, may, in time, cause the currency to become again too abundant, and then other remedies, tending to contract the circulation more and more, must, sooner or later, be adopted; and I have no doubt that such are now in the contemplation of the government. But whether they be so or not, at the present moment, is immaterial; so manifest is it to my mind, that, *supposing trade to revive* temporarily, what has been done will be perfectly unavailing, to bring into practical operation the principles of the administration respecting the currency, and to continue them in operation; that other measures, of a far more severe character, must come at the back of these. And I conclude, that the Bank is urged to establish the branches, in order to make the machinery work better, which is designed to effect this purpose hereafter.

Seeing the effect that has been already produced upon the industry of the country, by the authoritative declaration that these principles will be first brought into operation in three years; seeing that thousands of respectable, diligent, and frugal men, in



different classes of the community, who never speculated, or deviated in any manner from the habits of business, in regard to money, of their fathers or predecessors, have been suddenly dashed into ruin, without having the means of saving themselves, any more than they would have from an earthquake:—will not an inquiry be now entered upon, to ascertain what may be the ultimate effects of a perseverance in this course? If this be denied, and the present laws be suffered to go into full effect, accompanied by such ulterior measures as I am convinced must be adopted, to render the present *consistent* and *complete*; no man, acquainted with the means by which the industry of the country is upheld, will contemplate any thing but ruin to men of business, protracted or renewed misery to the working classes, and the greatest possible encouragement to the industry of foreign states.

Observing, at the present time, in the efforts which ministers are making with the Bank of England, to provide an effectual substitute for money facilities taken away, evidence of an adherence to erroneous opinions; I have endeavoured to show how futile such efforts must prove, and how certainly any expectations of great good, resulting within a reasonable time from the establishment of branch banks, must end in complete disappointment. If the present state of country banking be examined attentively, and without prejudice, it will be evident that, under proper regulations, that system would continue to afford succour and advantages to the public, which the branch banks of England can never render, by the operations of the

principles upon which they are established: the contrast, in favour of the old system, is, to my understanding, extreme.

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THE ALLEGED EVIL OF PAPER MONEY, AND THE  
TENDENCY OF THE LAWS PASSED IN 1826, TO  
REGULATE THE CURRENCY OF ENGLAND, BRIEFLY  
CONSIDERED.

Without going into a detailed consideration of the subject, I should briefly define that system of currency to be the best, which facilitated the means of bringing forth the greatest amount of valuable productions to a state; and which continued to do so for ages. For though this, at the first view, may be considered an imperfect definition, it is, perhaps, less objectionable than it appears. It comprises the consideration of commercial intercourse between nations, and in that, the subject of the exchanges; because if there be, on the long run, any obstructions to the free disposal of commodities, there will be corresponding impediments to their being produced. It takes in that great moral question of a paper currency encouraging a spirit of gambling speculation in the people, and introducing habits opposed to the regular pursuits of industry; because whatever tends to bring forth the greatest mass of productions, and continues to do so, during succeeding generations, must also be the means of affording the greatest quantity of employment to the people; and nothing tends so much to diffuse moral habits and intelligence, as constant employment and



the regular pursuits of industry. I shall presently apply this rule, as a test, to ascertain the effects of a paper currency in Great Britain. But let us first look at the condition of some of those states where paper money has much prevailed, and where it has been subject to the greatest fluctuations in its value, compared with metallic money, or commodities. If the consequences of occasional depreciation, to the extent that we have witnessed it during the last twelve years, were so injurious and alarming as they are described to be, we should expect that a far greater depreciation in other states, than any known in England, would be followed by great national calamities; yet, on examination, we shall not find that, even where the issuing of paper money has been most abused, it has produced those disastrous consequences to the state which we are instructed to apprehend, from the slightest deviation from rectitude in the practice of those who manage it in England. The consideration is more abstract than practical, and shall be dwelt upon only for a moment.

In Russia, paper money is, or was recently, worth just about one fourth the value of metallic. This, no doubt, produced some embarrassment; and for want of proper regulation, some injustice, by the government compelling its servants, military and civil, to receive their pay in paper money; but we have the authority of intelligent merchants, connected with Russia, for the fact, that it caused, comparatively, no embarrassment or difficulty in the mercantile and trading operations of the country.

In the United States of America, the system of paper currency has been more abused, during the present century, than in any other country. Every state throughout the union had a circulating medium, of a different value from the circulating medium of the adjacent parts of the union. Merchants and traders have collected their debts in the circulating currency of every state, valuing their receipts at all prices, from 4*s.* in the pound to 20*s.* in the pound, according as the paper currency in each state deviated in value from metallic currency. One can hardly imagine a state of currency more entangled with difficulty than this; and we have abundant evidence of the individual distress produced by the restoration of the currency from this state to a better, in the embarrassment and losses of men in every rank of life, from the highest magistrate and largest land proprietors, to the lowest cultivators; and from the merchants of the most extensive business, to the huckster in the smallest store. Yet, even in America, there being no great national debt, no very extended money engagements connected with manufactures and commerce, or the rent of land; and where, from the cheapness of land and the high prices of labour, industry would soon effect savings of capital;—we can discover no great *national* evils resulting from this, the grossest abuse of the paper system.

Russia and America are placed in circumstances somewhat similar. In both countries there is a vast extent of land, in proportion to the number of the inhabitants. Population increases in both, with great rapidity. They are both, though not in relative proportions, commercial states. Both have been, within



the last fourteen years, subject to the ravages of war, carried on in the interior of their respective countries; and both their capitals have been in the possession of their enemies. They have both had a greatly depreciated paper currency. Yet those countries have regularly advanced, with slight interruptions, in a continued course of prosperity; and the comforts and conveniences of life have become more and more diffused among the people. Their foreign commerce has (saving occasional interruptions) been continued in a prosperous condition, and the funds of the American and Russian governments have always met with ready purchasers in foreign states. So powerful have been the causes of their advancement in prosperity, that in neither country, after this short lapse of time, is there remaining scarcely a vestige of the ravages of war. In America, the effects of war were not felt twelve months after the peace; and as regards the power of Russia, to renovate and advance, look at the present state of her provinces, cities, and capitals: you may walk for miles and miles, over a new and magnificent city, and ask at every turn, Where are the ruins of old Moscow?

Russia and America are not cited as *examples* in this matter; but merely to suggest, that those who are determined to look at this subject in one point of view only, may overrate the apprehended evil; and that the habit of so overrating it, may cause proceedings of a destructive tendency.

No man will say, that there was any chance whatever, under any circumstances, of our currency becoming ruinously depreciated; or, indeed, that there

was any probability of its becoming so much depreciated, as it was at several periods between 1800 and 1819. The utmost evil, therefore, that could be contemplated, was not of an appalling magnitude; and I think it extremely unwise, upon every deviation from right practice in the banking and money affairs of a country, to attempt, by new laws, to enforce a better state of things. If the subject be not well understood, before the new laws are enacted, they will fail to accomplish the object designed, and they will immediately interrupt the operations of industry, and, in our circumstances, permanently injure the prosperity of the country.

Paper currency is essential to Great Britain. It cannot be had, without a liability to occasional depreciation. With the state of the law as it was in December last, the good sense of the people, and the increased knowledge and experience of the managers and regulators of our money affairs, would effectually prevent an excess again occurring in the circulation, equal in degree to what we have several times experienced, during the last twenty years. The matter, therefore, wanted little but the occasional supervision and correction of the government, to render our currency in future, as nearly as that desirable object can be attained, of one uniform value.

After the experience of the year 1825, there could be no reason to apprehend that mischievous consequences would result from the bank note circulation of Scotland and England, where the principles and management are in general correct and good. The prudent and reputable bankers of England, have conducted



their banking concerns far more beneficially, for the public, than those of Scotland. But in the department of their management connected with cash note circulation, I consider them to be nearly equal; and as the Scotch bankers have continued the issuing of small notes so much longer than the English, I take an illustration from the practice of Scotland.

The Scotch bankers had been in the habit of issuing notes to so low a denomination as a pound sterling, for fifty years before Dr. Smith wrote his celebrated book. In the chapter on money, he bears ample testimony to the value of a paper currency: "But though the circulating gold and silver of Scotland have suffered so great a diminution during this period, its real riches and prosperity do not appear to have suffered any. Its agriculture, manufactures, and trade, on the contrary, the annual produce of its land and labour, have evidently been augmented." If, therefore, Dr. Smith's opinion of the salutary effect of the Scotch system of banking, which includes the one pound note circulation, be admitted as proof of the benefit to the public, during the first fifty years of its exercise; we have only to ascertain whether the same results have attended its progress, during the succeeding fifty years, to establish the position, that a paper currency, including the circulation of one pound notes, has been proved to be beneficial to a state, and that that proof rests on the uniform experience of one hundred years. During the last session of parliament, the unanimous evidence of all the statists and economists of Scotland was collected, to prove that the banking system, and especially that part of it consisting of the

small note circulation, had been the main spring of Scotch industry and prosperity; and that, if it were either destroyed or injured, a great part of the operations of industry would stop. The committees of parliament appointed to investigate the matter, admitted the proof, by recommending that no proceeding should go on, in regard to Scotland; the state of the case being, that, previous to investigation, the government had resolved upon a total change of the system, by the destruction of the small note circulation.

It is, therefore, I may assume, admitted, after a laborious and protracted investigation into its merits, by many of the ablest members of both houses of parliament, that, under proper management, the small note circulation, not taking in any amount lower than a pound sterling, is good for a country; and the proof of its benefits rests on the uniform experience of a century.

It would be a waste of time to dwell upon the distinction that has been made, between a poor country, like Scotland, requiring a paper currency of this kind, more than a rich country. Whether England be, as compared to Scotland, rich or poor, is not the proper question; but whether England have been accustomed to the small note circulation, and whether it can be withdrawn without greatly diminishing her productions, and permanently injuring her prosperity. I think that I have shown, that no part of the bank note circulation of England can, in our present circumstances, be destroyed, without the greatest hazard, and producing the most mischievous effects, upon the operations of industry in all departments of manufac-



tures and trade: that a measure, deeply affecting all the great interests of the country, should have been resolved on, without any inquiry, and without any means whatever of appreciating its effects, will hereafter appear one of the most extraordinary circumstances recorded in the history of legislation.

Adhering strictly to the principle of having, under all circumstances, an abundant paper currency, I am still one of those who desire to see a fair experiment made of the possibility of sustaining a paper circulation convertible into cash, and that too at the present standard: firstly, because there is no chance whatever, in the present state of public opinion on this subject, of obtaining a candid consideration of any proposition, but one founded upon this basis; and secondly, because I think no man can have implicit confidence in deciding, that the consequences which might result from the adoption of any other proposition now, would, on the whole, produce a less portion of evil. It is obvious that some injustice attends this, and the practicability of enforcing the rule at all times, and under all circumstances, may be doubted; but it would operate as some check against excess, by warning the issuers of the consequences to be apprehended from imprudent issues. It may, under judicious regulation and management, be a better mode than any other that can be devised, of keeping the circulation as nearly as possible of one uniform value.

It is plain that, as the Bank of England has been alone resorted to for gold, when it was wanted for exportation, the operations of the Bank have been the sole palpable indication of an excess of circulation.

This state of things ought not to remain. The Bank of England has less power to prevent the first advances towards an excess, than the country bankers; and the government should take every means to give notice of the approach of danger, to all persons who have power to correct the evil. We place sentinels, to warn us of the hostile advances of our enemies; and surely, if the excess of paper circulation be an evil of such magnitude as we have a right, from the parliamentary proceedings upon it, to conclude that it is, it would be worth while to endeavour to counteract the mischief, by a periodical publication, in the Gazette, of exports and imports, the custom house and other entries, which indicate the internal circulation of commodities, which generates the circulation of credit, and augments paper currency. This should be accompanied by an account of all the stamps issued, the Bank of England issues, the state of exchanges, the amount of coin or bullion imported or exported, the amount paid each day at the clearing house, at the London bankers, &c. I believe no one of the parties concerned would object to this publicity; and I entertain a decided opinion, that this practice alone, after the experience of the year 1825, would have been found sufficient to prevent any excess, for at least the term of one generation of man.

To those who urge the injustice of paying, in a currency of higher value, the interest of a debt borrowed in one of a lower value, I have nothing to answer; except that I believe the circulating medium of the whole world to be more lowered by the abundant paper circulation of Britain, than any one is



aware of. Nor, to my mind, is the usual observation, that if this were the consequence of our abundant paper currency, we should witness a much greater increase in the prices of the principal productions of other states than has taken place, a sufficient answer. It appears to me that all writers upon the currency, and especially those who take the side of the bullionists, ascribe too much effect upon prices to the circulating medium, and too little to that produced by a quick circulation of commodities. The temporary influence upon prices of a quick circulation of commodities, by the practice of *dealing*, where the number and condition of the roads, canals, and the coast navigation, afford such facilities to its exercise, is, in a small, rich, and populous country like Britain, prodigious. But not so in a country like France, where similar facilities for the rapid transmission of commodities do not exist.

Besides, we have never had an abundant paper currency, without frequently repeated checks to its influence by violent contraction. And whoever supposes that an augmentation of the currency is immediately, or very soon after, followed by any material increase of prices, is, I think, under a mistake. In Great Britain and the United States of America, some perceptible influence upon prices may be discovered, at no distant period after such augmentation. But so far from the same effect occurring in France, "the moment an additional quantity of money\*" begins to circulate, I am of opinion that years would elapse before any perceptible change would take place, generally, in the

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\* See note, p. 79.

provinces, unless the depreciation were excessive, and exceeded ten per cent.

We have been led astray by the application of an undisputed abstract truth—that the quantity of money is the measure of the prices of a given portion of commodities, to the actual affairs of life;—without considering the influence of time—of habit, and of circumstances, in its practical operation.

The reason why a contraction of the currency has an influence so much greater and more immediate, in lowering prices, than an extension of the currency has in raising prices, is, that except for the supply of pressing demands for immediate consumption, contraction puts almost an entire stop to the practice of *dealing*, either on book credit or circulating credit.

It is clear, from the stagnation in business, and the extensive failures in all commercial states that have intercourse with us, which take place at all times when we adopt measures to contract our currency, that the state of our paper circulation has a very great effect upon the circulating medium of all other states. By withdrawing an amount of paper currency from circulation in England, we at the same time reduce the credit circulation of the whole commercial world, and simultaneously create a general demand for metallic money.

If, during the commercial ascendancy of Genoa and Venice, it could be a common complaint that all the gold of Europe was drawn to Italy, how much of the gold of the world would now be drawn to England, if no circulation but metallic were permitted? The commerce of Liverpool alone, (positively, but not rela-



tively,) far surpasses the commerce of the Italian states, taken at the time of its greatest magnitude. Liverpool, as one point of collecting and distributing commodities, indicates the relative amount of moveable property possessed by Britain. That commercial state which possesses the greatest quantity of commodities desirable to all men in civilized life, would, if metallic circulation alone were enforced, soon acquire the greatest portion of the precious metals. No man can say what portion, in that case, would belong to Great Britain. I have no means at hand, of knowing the amount of the importation of gold and silver, during the eight months from December to August last. The knowledge of that amount would assist the speculation, by indicating, imperfectly, what would have been the effect of pressing the contracting screw with redoubled force.

To consider this subject, without reflecting upon the possible consequences of our proceedings in rival manufacturing and commercial states, would be to conduct the inquiry in a confined and partial manner. By withdrawing, suddenly, a great amount of metallic currency from those states, we may cause, in them, so much inconvenience, that they, as well as the Americans, may be driven, for relief, to adopt the British internal system of banking; and an engine, which we have found to give great commercial and political power, may be turned against us.

Imagine the diminished state of paper circulation which existed in England on the 1st July, 1826, to remain in that state for six months; and suppose that then, a renewed panic, operating with increased force, seized the public:—that this again produced, as the

former panic appeared to produce, a conviction upon the minds of ministers, that new measures of prohibition and contraction of paper money must be resorted to; to restore what is termed a healthy state of the circulating medium. Suppose these concurrent operations to drive out of circulation all internal bills and bankers' notes whatever; and that proceedings are at the same time going on, in all other commercial states, to the same end. We should be reduced, solely, to the circulation of coin and foreign bills of exchange. Suppose this state to continue long enough to produce its natural results. What, in that case, would be the effect upon the prices of all public securities—all fixed and moveable property, throughout the world? We may form an imperfect notion of the degree of reduction of prices, by knowing the effect of increasing prices, by the first introduction of the produce of the Spanish mines into circulation: a circumstance in history, which would throw some faint light upon the subject. This is supposing an impossibility. I deny, however, that to state the supposition is ridiculous; because no man can tell how near to this state of things we may be brought, by the continued prevalence of misapprehension and error, in regard to the state of the currency, and the obvious absence of all power to appreciate the manner in which any intended correctional measures may work. If we have power, by forcing a contraction of the circulating medium in this country, to bring about portentous results upon all prices and upon all commercial affairs, our power must also be great to sustain the circulating medium of the commercial world in a state of comparative



depreciation; and by this means to attain, as nearly as we can, in the complex and difficult circumstances in which we are placed, justice to the British public.

So long as paper currency forms any material part of the circulating medium of this country, there will be periods of extension and contraction of the circulating medium, by the natural force of commercial operations. These excesses must be counteracted, by every wise expedient that can be devised by the government. Our policy, however, has been the opposite of this. When manufacturing and commercial affairs were going into a dangerous state of excess, we heard nothing but acclamations of approbation from all guides and instructors of public opinion; and we were told, from high authority, to fear nought, for that our prosperity was built upon the most solid foundation\*. No wonder that the point was passed, where wisdom would have said, "Stop, and retrace, gradually and carefully, your steps." The true policy would be, by measures of precaution at the time of the first advances in error, to prevent a dangerous excess, which I am convinced might have been accomplished, with the state of the law as it existed in 1825. And then, when the rapid contraction of the currency begins, which will always follow excess, (and the recurrence of which no measure can entirely prevent,) to sustain

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\* There was certainly a very distinct and strong warning given by Lord Liverpool, in allusion to the extravagant speculations in shares; but it did not go far enough. It was confined, I believe, to a single speech.

and uphold credit should be the policy, and not to destroy.

It will be said that the opposite policy was adopted in the last session, for the purpose of preventing speculation in future, and to regulate the exchanges. In the event of a return of prosperity, we have seen that the measures resorted to will have no power whatever to prevent speculation; and as regards the exchanges, from the view that I take, it appears a most defective mode of accomplishing the intended purpose, and consequently affords but little chance of rendering justice to the principles which dictated the adoption of the laws.

Whenever the exchanges become unfavourable, the drain for gold is from the Bank of England, and from the Bank of England alone. Would it not be natural to keep the supply as near as possible to the place from whence the drain begins to exhaust, and to keep it in a perfect and entire state, in order that the equilibrium may be restored promptly and efficiently? If we want to keep a body of water, for the supply of channels liable to occasional exhaustion, we do not scatter it about in a thousand distinct portions, to evaporate; and which may, or may not, have communications open with the main reservoir; but we keep it in one mass, to be always ready for our purpose. If, as it is contended, six or eight millions of gold, beyond the amount which the Bank of England will for its own security possess or command, would be sufficient to attain the desired object, why could not the amount be kept at the public expense in the Mint, to be increased or decreased, according as the govern-



ment saw the necessity of bringing into operation precautionary measures of regulation, in regard to the currency. Although we have cash payments, yet, in no cases, except during periods of panic, are payments demanded in cash. The least reflection upon the circumstances of this country, would, it seems to me, convince any man of the unlikelihood of our being able to collect gold when it may be wanted, if it be dispersed about the country, in the room of one and two pound notes. The country is filled, in a manner unlike all other states in the world, with commodities that can in a moment be exchanged for gold. The people are liable to panic, and are in a peculiar manner prone to hoard, in cases of alarm. We have recently experienced one panic, and felt its terrible effects. The next panic may be of a worse character than the last; for there were none of the exciting and aggravating circumstances last winter, that may attend the next period of panic. Consider how mutiny, famine, domestic insurrections, war, or the threat and expectation of invasion, would increase the evil.

Gold is not wanted in the country, except for the bankers to reserve against occasional demands for cash. *Good* and *secure* paper money would be universally preferred in all the country parts of the kingdom, because it is more portable, attended with less trouble and inconvenience, is infinitely less liable to robbery\*, and may be traced and recovered if lost.

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\* I know a banker who lost, out of coaches, some years ago, two parcels, at separate times, containing £20,000. in cash notes, and gold: by great exertions he recovered all the notes, but he lost all the gold, amounting to several thousand pounds.

Country bankers and all traders ought to be protected by a law, to stay legal proceedings, for a given time, whenever they tendered Bank of England notes for payment of any demand above the value of four pounds.

In the condition in which we are placed, we should be perfectly satisfied, so long as the state bank can always give gold at the instant of its being demanded ; and this, I think, is the only mode by which we can, under all circumstances that may happen, support cash payments, for a series of years. This would bring the state of the currency under the immediate supervision and control of the government. There is no necessary and inevitable connexion between a paper currency and an unfavourable state of the exchanges. For years subsequent to the suspension of cash payments, in 1797, the value of our currency was high, and the exchanges favourable to England. The circulating medium is more likely to be kept equable by precaution, watchfulness, and publicity, than by the plans now adopted, and those which are, *to be consistent*, hereafter to be enacted and put in force by the government. These plans, indeed, appear to me to be just as wise, to effect their purpose, as it would be to expect that, by increasing the penalties of smuggling, and removing all the means of prevention, by watching and searching ; we should have the best chance of stopping the commission of the crime.

It would be very unbecoming, in one who so much deprecates the effects of undue confidence on this subject, to arrogate the possession of any peculiar know-



ledge of the more abstract part of the currency question. My claim for attention rests upon the knowledge which I possess of the necessities of the productive classes, in regard to money, and the means of supplying those necessities. I might, indeed, without great presumption ask, where is the man who thoroughly understands, in theory and practice, every part of our extended and complicated money system. It is obvious that errors and contradictions may be detected, in almost all writers on the subject.

Dr. Price, in 1776, asserted, that "any events that should produce a general panic, however groundless, would at once annihilate it, (*paper circulation*,) and leave us without any other medium of traffic than a quantity of specie, scarcely equal, in amount, to the money now drawn from the public by the taxes. It would, therefore, become impossible to pay the taxes. The revenue would fail; near one hundred and forty millions of property would be destroyed; the whole frame of government would fall to pieces; and a state of nature would take place. What a dreadful situation!" After indulging in the most dismal forebodings, from the state of our paper currency, "I shudder," he says, "at the prospect: a kingdom on an edge so perilous, should think of nothing but a retreat." We disregard the awful warning, however, and advance, without thought or apprehension, amidst these appalling dangers; and we are told by Mr. Mushet, just fifty years afterwards, when our annual expenditure and national debt are more than quadrupled, and our paper currency increased tenfold, that "it

is of no consequence, whether the currency is all paper, or partly paper and metallic, or entirely metallic, as far as the payment of rent and taxes are concerned." Thus we see that the most laborious and abstruse inquirers know little of the practical operation of the system; and we know also, that the most popular and confident writers are utterly unable to estimate the money resources and power of this country, and have rendered manifest their ignorance of the manner in which the currency is connected with industry: they know absolutely nothing of the amount of different portions of the paper currency, and the various operations to which each part is giving motion. Witnessing these, is calculated to inspire any thing but dogmatism in our opinions, or confidence in the wisdom of proceedings hastily undertaken \*. All that I aim at accomplishing,

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\* One of the objects which I desire most to attain in this letter, is to lessen that spirit of confidence and dogmatism which is obvious in most persons who have written upon subjects comprised in the science of political economy; and peculiarly manifested in disquisitions upon banking and the currency:—a spirit which, I think, tends greatly to bring into popular disrepute the study of one of the most valuable departments of knowledge. In no public man has this spirit been more conspicuous than it was in the late Mr. Ricardo; and all who have seen, and can duly appreciate, the ruinous effects of erroneous legislation respecting the currency, have a right to censure this dangerous propensity; because the unprecedented suffering which has resulted from that legislation may fairly be ascribed, in part, to the dogmatism with which he expounded his opinions upon this subject, so imperfectly understood by many of those who had to decide upon it as legislators. This gentleman's doctrine of the effects upon prices being no more than four per cent. by raising the value of the circulating medium from the state of depreciation which it was in



by the few cursory observations on the more abstract part of the subject, is to suggest that, until the beneficial operation of any changes can be made clear, it would be wise to leave the people to work themselves out of a condition of difficulty, without any direct legal interference on the part of the government. But for an ill timed proceeding, adopted without knowing its tendency and effects, I am satisfied that any judicious correctional measure respecting the currency might, in a few years, have been put in force, without producing injurious consequences. The period of excessive derangement, arising from the vicious practice of banking, from 1800 to 1815, passed over, apparently without any public man knowing, except as to the amount of depreciation, in what manner we were in an unhealthy state. Ever since 1815, we have been recovering in *England*, gradually, but safely. Not only have banking operations been conducted with more prudence; but credits, in al-

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previous to 1819, to the legal standard, was truly fitted only to a bullion broker, who had never made a single observation upon the affairs of mankind but between St. Mary Axe and the Royal Exchange.

Conscious mental superiority in one who in early life has had but a contracted range of observation, is apt to create an unjustifiable contempt for those who derive knowledge purely from practical experience. Nothing, however, is pregnant with more danger in men of theoretic research than this spirit; especially when it is united with an obstinate belief in self-infallibility. Mr. Ricardo was a memorable instance of an able man, who would refuse all knowledge but that which agreed perfectly with the abstract principles acquired in the closet. A familiar illustration of the danger of relying on the infallibility of theoretical conclusions may be adduced. Of all the patents that are taken out for inventions, not one in ten is incorrect in principle: not one in fifty succeeds in practice.

most all commerce connected with manufactures, have also been greatly curtailed. Cash transactions have multiplied, and short credits have been forced upon all purchasers.

From the regular and gradually increasing curtailment of all credits, with an inconsiderable exception, and the necessity that all tradesmen in wholesale businesses felt of bringing their traffic, in respect to payments, nearer and nearer to the state of cash transactions, I entertain not the smallest doubt that a few more years in this course of proceeding would have brought us entirely out of the vicious practice, in regard to credit and banking, which we had adopted and exercised up to the year 1815; and this effect would have been produced by the best means, the progressive accumulations of capital arising from industry.

If the landowners would take the trouble to become acquainted with their true interest, they would, I think, be zealous advocates for the country banking system; and would either try to enforce the suggestions which I shall venture to propose, or recommend others more likely to give to that system all possible effectiveness and perfection. Whatever may be said respecting the departments of mines, manufactures, and commerce being supplied profusely with currency; few men will be hardy enough to assert that the country has sustained injury by too much capital being employed in agriculture. The great profits derived by bankers from bills, and the quick and immense circulation resulting from *dealing* and credit, have naturally disinclined the country bankers from lending money to farmers who can make scarcely any profitable return with them. Better, they think, to discount long dated bills, than to



lend to farmers upon the best security, but with uncertainty as to the time of repayment. How can the most productive system of cultivation be adopted, and the best management persevered in, without sufficient capital?

Let the country gentlemen examine this subject, and they will find that the branch bank system has a direct tendency to withdraw capital from agriculture; and that every means that we take to establish that system, accompanied by corresponding efforts to destroy that of country banking, will tend to bring the landowners of England nearer and nearer to the condition of those of Poland or Germany.

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SUMMARY—REGULATIONS RESPECTING THE  
CURRENCY SUGGESTED—CONCLUSION.

To be brief, is as requisite as to be clear. If I have failed in adhering to the rule, it is not because I do not know its importance. The few remaining observations will be soon terminated.

The purport of the foregoing, is to produce a conviction, that the question of the currency has never been thoroughly understood, because it has never undergone a *proper* investigation; if the true object of an investigation be the direct effects of our paper currency upon British industry and its productions, and its indirect effect upon foreign commerce, and the industry and productions of rival states. In this comprehensive sense, all the inquiries to which this subject

has given birth, are no more a just examination of the state of the currency, than a survey of the county of Middlesex, would be all that could be requisite to render a true statistical representation of Great Britain. The consequence of enacting laws in this state of knowledge is, that those laws cannot produce the effect designed; but they will produce other effects, most injurious to the national prosperity. Hence, that a deliberate re-examination of the state of the circulating medium, and of the laws intended to regulate it, must take place.

I have endeavoured to show, that the measures of the government, respecting the currency, *are bad both in principle and practice*. Corn and money are as necessary to sustain industry, as air and water are to sustain life. They ought, therefore, to be had freely, and in abundance, but not in excess. If, however, the principle be good, of having a curtailed and greatly restricted currency, the measures adopted to give it effect in practice, have ultimately a contrary tendency. The operation of these measures will cripple the industrious, by taking away a part of their little indispensable portion; but they may greatly encourage the speculative to shift from hand to hand the products of industry, without any legitimate object connected with production or consumption.

The Bank of England notes are put forth in great issues, upon bills discounted. The ready mode to create bills, is to deal in commodities. Manufacturing is a slow process: it has not the same tendency to create bills as dealing. The country bankers put forth their small notes in minute portions, divided, almost



infinitely, amongst manufacturers and traders; and bills come into the hands of manufacturers, strictly speaking, only when the thing made is ready for sale. To encourage dealing in commodities, therefore, seems the policy of the government; to transfer productions from hand to hand, and at every transfer to create a bill, which the great bank will discount. To encourage production, by permitting the secondary manufacturers and traders to have that currency to aid the operations of industry, which alone *they* can obtain, would be to counteract sound principles, in regard to the circulating medium. No man of experience, that reflects upon the matter, however, will deny, that to put down country banks, and establish branch banks upon their present principles, is the best possible contrivance that human ingenuity can devise for creating speculation—forming habits opposed to the steady pursuits of industry, and obstructing the energies of production.

It is true, nevertheless, that the powerful influence of dealing and speculation will, at intervals, give increased action to industry; but that increased action will be fitful, and not regular.

For the alleged reason of preventing speculation, we are aiming to destroy a system which is identified with industry, and which of itself has no tendency to promote speculation; and we purpose, in its stead, to erect a system which, to exist, must encourage speculation; because to *deal in*, and not to *create*, productions, is the ruling principle of its action. The system we would annihilate, is that by which money is received from the inert, who wish to retire from

active life, to be lent to those who desire to be busily employed in the field of industry. The Bank of England will not borrow, neither will it lend, excepting by discounting a bill, which, in a great proportion of cases, has no connexion whatever with industry.

The more this subject is examined, the more evident will the contradiction of principle, by practice, be rendered. We wish to prevent excess in circulation, and to regulate the exchanges; and we try to accomplish the purpose, first, by destroying small notes, which have very little influence upon either; and secondly, *by establishing branch banks, which must create bills, because in bills only will they deal: while it is manifest that bills are the soul of speculation—the main spring of excess in the machine of circulation; and that to them, and them alone, all the depreciations, and all the derangements in the currency, during the last twenty-five years, may be traced.*

Then, on the other hand, how can it be expected that, by distributing six or eight millions of gold in the country, the exchanges will be kept right? The gold will probably be required to regulate the exchanges, during a period of alarm. Looking at the moveable property in this kingdom, can we doubt the power of the people to seize all the gold for the purpose of hoarding; and if the power be manifest, is the inclination to hoard, when alarm takes possession of the minds of people in all ranks, less obvious? When the full, immediate effect of the panic had driven in nearly all the small notes, there was, except in Manchester, very little, if any, more gold in general circulation in the manufacturing parts of the country. Up to December



last, the circulation of small notes aided the efforts of the Bank to restore the equilibrium, by keeping all the gold in and near to London, and other great points of collection; from whence it might flow, without any particular obstruction, into the channels exhausted by exportation. But, if the small note bill go into operation, and if the manufactures be continued to the same extent as heretofore, and no trick be resorted to by the manufacturers to pay their wages, by evading the law, the gold must be principally in the densely peopled districts; and he who supposes that it will be readily collected in those districts when it is wanted, knows little of the feelings of the working classes, or of those immediately above them.

To those who may be of opinion that I attach too much importance to the small note bill, I answer, in the first place, that it is a vain effort to accomplish the purpose designed by it; and secondly, that that bill is the first introduction of a wedge, which will either be drawn back, for fear of the consequences, or it will be driven home. That I perceive no disposition to draw it back, but every succeeding day a clearer evidence of a resolution to drive it to the heart; and if it be so driven, the tree will soon wither and die.

If this were solely a question of degree, and supposing that we all admit that the amount of the currency must be reduced, we are proceeding in the most contradictory manner. We take it with one hand from the man of industry, to whom it is the means of buying bread; and we give it with the other to the speculator, to astonish the world by the note of his count-

less thousands, and the glittering symbols of his incomprehensible wealth.

I have no means of knowing the amount of Bank of England notes in circulation. I will, however, venture an opinion, that that amount would show an increase exceeding fifty per cent. upon the lowest amount of 1825. But what is that increase, compared with that which we shall witness, if the prevailing principles on the currency be pushed to their accomplishment? And what an illustration will the coming events throw upon those inquiries in parliament, which were instituted to examine into the effects of an augmentation of four or five millions of Bank of England notes and country bank notes.

The machine of the currency which the government has undertaken to manage, is linked with interests in this country, and possesses a force which render the attempts to regulate it, by the means suggested to His Majesty's government, I think, absurd. And though, in speaking of the erroneous opinions of others, it may be thought that I have exercised a reprehensible confidence, in proceeding to make any suggestions for the correction of the evil, I feel a diffidence proportionate to the difficulty, the complexity, and the magnitude of the consideration.

Whether looking at the extent of the subject, and the multifarious and important interests connected with it, it be possible to manage the currency consistently with the principles of the administration, without deep and permanent injury to the national prosperity, is the great problem. From the foregoing observations, I can have no hesitation in affirming my opinion, that the



great means of becoming right in this important matter, is to leave unobstructed the operations of industry, that production may go on, and capital accumulate. That the next principal object of attention is to decrease the liability to excess, in that part of the circulation in which excess is always generated; and therefore to restrict the amount of the largest portion of the circulation, which is in bills; and not of the smallest, which is in notes. Upon these principles I venture to suggest, but I do not presume to recommend without inquiry, as follows:

- 1st. Pass a law, to protect from legal proceedings, for fourteen days, all persons who tender Bank of England notes, for a demand above four pounds.
- 2nd. Keep a sum of gold, amounting to six or eight millions, at the Mint, for the sole purpose of adjusting the circulation; to be diminished to any given point, in case of alarm and violent contraction of the circulating medium.
- 3d. Make silver a legal tender, for a much larger sum. I cannot, without better information, be satisfied of the propriety of changing the standard from gold to silver.
- 4th. Repeal the small note bill of last session, and permit one and two pound notes to circulate in England, as well as in Scotland and Ireland, and upon the same terms; *viz.* that all who issue them give security to the government, either landed, funded, or personal, against loss by failure.
- 5th. Equalize the stamps upon bills, so that the small trader may not be taxed so disproportionately

for the use of those instruments of his trade. The tax upon a bill for ten pounds ought to bear some fair proportion to the tax upon one for a thousand pounds.

6th. Prohibit all men from drawing or accepting a bill exceeding three months' or ninety days' date. Perhaps a very large tax upon all bills that exceeded that term, would alone be sufficient to accomplish the purpose.

7th. Let the state of money, including all kinds of paper and metallic currency, undergo frequent examination; and enforce a regular, periodical publication, in a formal and conspicuous manner, of the state of the circulating medium, the issues of stamps, &c. Connected with this, a publication must take place of all those matters that have a direct bearing upon the state of the currency. Exports and imports, with all that distinguishing analysis of home, colonial, and foreign produce; and the separate materials of each, so easily rendered. And a publication also, as nearly as it could be collected, of the internal circulation of commodities, from the custom house and other entries.

Of these suggestions, the two last only require a remark.

Those who imagine that the sixth proposition is unimportant, are not, I think, aware how great would be the tendency of such a regulation to prevent excess. There is, as it appears to me, no other safe, judicious, and effectual mode of reducing the vast circulating credit of this kingdom, than by lessening that



part in which excess first commences, which is most capable of being enormously increased, and which has the greatest influence in promoting speculation. The practice of discounting bills, six months after date, was as common in Scotland, as discounting bills under six months and above three, was in England; and this is the true secret of the extensive and prolonged distress of the manufacturing part of the Scotch community. This was the master vice of the Scotch system of banking, as it will be that of every joint stock or share bank that can obtain a similar hold upon the public opinion, and an equal exemption in practice, though not in law, from liabilities to having claims suddenly demanded, to be paid in Bank of England notes or the coin of the realm. Their small note circulation, which was connected with industry, and necessary to its operations, was not worthy of a protracted inquiry. The cutting off of so large a portion of the representative capital, which, by anticipation, was made available for circulation, would have ten times the effect of the small note bill, in preventing excess, and in leaving, free from obstruction, the means of a speedy restoration to a healthy state in cases of disorder.

There might be objections in principle, perhaps, to enforcing the absolute prohibition of all bills exceeding three months after date. But by imposing an increased tax upon all bills which exceed two months' date, the government have admitted the principle of the measure which I suggest to be good: only it has absurdly, as I think, stopped short in practice. Bills which exceed three months' date ought to pay, at the least, a quadrupled tax. This would not prevent

entirely all such bills from being drawn, but it would most materially decrease the amount.

By applying the screw to this part of the currency, to correct an excess in the circulation, it can be done safely, and without much injury; and if experience render it necessary, the pressure can be increased in this manner without danger; whereas, by applying it to the circulation of small notes, it cannot be done without the greatest hazard to the pursuits of industry; and when so applied, it affords no chance whatever, from the contracted range of its power, of keeping the circulating medium properly adjusted.

The last suggestion I consider so much more important than all the others, that I cannot hesitate to declare my opinion, that this regulation alone, with our recent experience, and in the present state of intelligence in banking matters, would have been sufficient to accomplish every desirable purpose, for a series of years, letting the law remain as it stood in 1825. In December last the arch of credit was partially injured. An engineer, practically skilled in this department of the art, would have applied the usual cement to hold the materials together; and with the precaution suggested in the last proposition, to prevent occasional risk from extreme pressure, the immense traffic which had heretofore passed over the fabric, might have continued without danger, unobstructed in its course. To break up the key stones, and reconstruct the arch, was unwise; because the new materials cannot be cemented with the old, and greater derangement must proceed from the attempt.

The country bankers and their London agents are



the recognized and almost the sole meters of credit—the established regulators of the paper currency of this country; and *they are every where in exercise*: they know better, practically, than any other public men can, or ever will know, what is requisite to keep the pursuits of industry unobstructed. They know also, from experience and intelligence, acquired by practice, that their greatest interest consists in preventing credit and circulation from running into excess: they want only that information from the government, in regard to the general state of the money affairs of the country, which it is criminal to withhold, to give to them the most perfect power to regulate the paper circulation.

In this business, or science, as Lord Lauderdale calls it, their faculties have had no fair play. A business the most simple of all the concerns in life, in its practical details, is connected, in cause and effect, with complicated considerations of singular and momentous import. The plain and sober man of business, pursuing his avocations in detail, is ever and anon unexpectedly struck by something which is forced out by these other considerations, which, to him, are purely theoretic or abstract; and therefore have received but little of his notice. While those persons to whom belongs the duty of attending to the considerations of momentous importance connected with banking, know nothing of the detail, and are ignorant of the manner in which banking operations are connected with industry, and are influencing productions. One great means of rendering this important affair right, and keeping it so, is, that both these parties should become well informed upon all parts of the subject; and I can suggest no

better means of attaining this desirable end, than collecting the best information, and spreading it in the most effectual manner. Interest, the apprehension of danger, with the state of the law in 1825, would prevent country bankers from contributing to excess. I believe that the true cause for apprehension, in January last, was, that all their actions would, for years, tend too much to contract the circulating medium.

I abstain from remarking upon the suggestion respecting the keeping of a sum of gold at the Mint; because there are so many persons infinitely more competent than I am to explain the practical operation and consequences of such a proposal. I am prepared to recommend a tax, which would be paid with satisfaction by the public, and which would raise a sum, annually, that would pay the interest of the capital so employed.

In concluding these observations, the only matter of regret with me is, that I have not more power to do ample justice to a matter so important. Considering the nature of the inquiry, and the obvious want of practical information amongst public men, I may have passed too rapidly over some of the important subjects introduced.

The desire for brevity has caused me to pass over that part relating to branch banks, with very slight notice. A principal object with me being to eradicate some of the prejudices that exist in regard to country bankers; unless it were the obvious and declared intention of the government to convert branch banks into instruments for subverting country banks, they do not seem to require more detailed observations. Enough



has been said, I think, to prove how utterly incompetent branch banks are, upon their present principle, to effect any purpose beneficial to the country.

We hear much encomium on the inestimable advantages of public opinion; but however ready men of influence may be to subscribe to this proposition in the abstract, it is altogether another matter when public opinion is separated into minute portions, and an individual presumes to exercise that part of it, openly, which fairly belongs to him. If he escape with bare and not uncandid toleration, he may think himself fortunate. I must trust, however, to the evidence which I have endeavoured to give of understanding, and of the capability of rendering clear, parts of this inquiry, not heretofore understood and explained. And as the ascribing of unworthy motives so often interferes with the desire of the candid to estimate, justly, the observations of those who differ from their opinions, I deem it proper to declare that, in submitting these observations to your notice, I have no other interest than that of the public to serve; and that no banker and no trader whatever has any knowledge of my intention to address you on the important subjects of this letter: that I was urged to undertake it by a desire to exhibit, in its true light, a matter little understood in its practical operations and effects. I was instigated also by an anxiety to witness the perfect establishment of those wise principles of commercial policy which His Majesty's ministers have avowed a determination to carry into execution. Nothing, I think, is so likely to prevent the accomplishment of their wishes, as de-

ranging the establishments of industry, and impeding production ;—consequences which must result from perseverance in erroneous opinions, in regard to the mode of regulating the currency.

This country will rise from its difficulties, if the means of production be uninjured ; the channels of commercial intercourse be kept unobstructed ; the principle of reciprocal intercourse established ; and if the people be permitted to resort, on fair terms, to new markets for disposing of their produce. Means must be taken, which will have the effect of giving a fair portion of the productions of labour to the mere workman. Monopolies prevent the best application of labour and of capital, and interfere with prosperity. I trust there is not a settled resolution to extend the monopoly of the Bank of England, to the destruction of the system of country banking.

I am aware that political observers, of extraordinary sagacity and powerful talents, affect to perceive, in the present signs of the times, evidence of the speedy dissolution of the British system of banking and finance. I can perceive no such indication, unless the errors which I have described may be regarded as furnishing that evidence. And I think they who see a perfect analogy in the circumstances of this country and those which perplexed and overwhelmed the French financiers, previous to the revolution in France, overlook this remarkable distinction ;—that France did not equal England in the power to supply the internal wants of the people ;—that, as compared with England, she had very little power to bring home the rich productions of other countries, in exchange for those of her own, which exceeded all



that she could herself consume ;—and that her small accumulated capital afforded her but very little limited means of engaging in foreign commerce. Foreign commerce has hitherto enabled us to pay the interest of the debt, and to bear the burdens of the state ; and to foreign commerce we must resort, for the means of sustaining our finances in future. The productions of husbandry we entirely consume at home. And notwithstanding the present alarm of the landowners, British husbandry will, for ages, continue to supply sufficient, (except luxuries and materials for manufacture,) for the wants of the inhabitants, without much aid from foreign states. Mines, manufactures, the carrying trade, and commerce, can alone enable us to bear fiscal burdens, unexampled in their pressure. But to enable us to do this, there must be no such obstructions to the free appropriation of capital, as the raising up of branch banks, and subverting country banks, would occasion. Nor must there be any hasty, ill digested plans adopted, for destroying that immense portion of representative capital which has so long been made available for production, in the shape of circulating credit.

Nothing, during the last fifty years, has operated with equal power, to the system of banking and the steam engine, in producing astonishing results in our social condition. Whether their influence have tended to the ultimate good or evil—to the happiness or misery of the people, cannot now be more than an abstract question. These are the instruments which have enabled us to conduct a war for twenty years, and to incur an

enormous debt; and by them alone shall we be able to pay the interest of the debt, and uphold, upon the present system of government, the power of the state. You cannot deprive either of one half its power, without great hazard; and it would have been as wise to pass a law, to take from all steam engines one half of their mechanical force; as, in our present circumstances, to pass laws and adopt measures, which will destroy one half the power of banking and credit.

What, in our present political state, can be more important than these subjects? Wanting, in common with all public men of his day, that knowledge which the schools cannot give, which enables men fully to comprehend and justly to appreciate the influence of these causes, Mr. Pitt died, despairing of the resources of his country. And in like manner, the ignorance of the power and mode of operation of the banking and credit system of Britain, has made the confident prediction of "the decline and fall of the English system of finance," a visionary dream.

Nothing but ignorance of the manner in which measures respecting the currency work, in checking or promoting productions, can prevent that prediction remaining, for ages, a proof of the liability of the most acute minds to error, on subjects of currency and finance. And with such liability to error, made manifest by almost every man who has written, talked, or acted publicly, in regard to this subject, will not inquiry be granted, before laws come into operation, the ultimate consequences of which no man has duly estimated.



## POSTSCRIPT.

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THE IMPORTANT CHANGES IN OUR POLITICAL CONDITION EFFECTED BY THE MECHANICAL SKILL, ENTERPRISE, AND GENIUS OF THE PEOPLE, NOT DULY ATTENDED TO BY PUBLIC MEN—STEAM-NAVIGATION TENDS TO EQUALIZE THE WAGES OF LABOUR IN ENGLAND AND IRELAND—ITS CONSEQUENCES EXEMPLIFIED.

There are some circumstances connected with the present political state of England, of a more general character than that particular subject, which forms the main purport of the foregoing letter, to which I must take the liberty of requesting your attention, for a moment.

Whatever relates to those points of our mercantile economy which are connected with other states, or our own colonies, is often the subject of treaty, or of acts of parliament, and is constantly a matter of discussion in the legislature, and in public offices; therefore, nothing can be better understood by public men, than customs, duties, commercial treaties, the navigation laws, colonial and shipping regulations. But, excepting in the post office department, whatever relates purely to the internal commerce and affairs of the people, is rarely a subject of discussion in parliament, never enters into the routine of official duty, is little understood by public men, and is, therefore, not reflected upon by them, in proportion to its merited

importance. Hardly any thing could be of greater interest than some of the subjects that this consideration would lead us into, as connected with the wealth and power of the nation, and the condition of the people.

What could furnish more interesting matter for observation, or present clearer evidence of the genius and skill of our countrymen, than the discoveries and improvements in husbandry? In many parts of Great Britain they have more than doubled the annual produce, and the intrinsic value of the land. My present purpose is, however, to allude to one subject only, which is in some degree connected with the object of this letter.

The post office is *now* managed so, as to prove, that the intelligence which directs its operations is equal to that which is employed in other great mercantile undertakings. In no other country in the world can intelligence and money be transmitted with equal expedition, frequency, security, or punctuality. Nor any where else, is the accommodation of the post afforded every day, to small numbers of the people living in remote places, at distances far from the high roads. We all see and feel the conveniences of the post, but we are not in the same manner impressed by the corresponding facilities, afforded by the rapid transmission of persons and property, and therefore, we are not induced to reflect, as we ought, upon the consequences to which these facilities lead.

A man may now pass a day in business, at Manchester or Liverpool, sleep in a steam boat, and pass the next day in business in Dublin. In like manner, a man living at Kendal, Leeds, Sheffield, Nottingham, Derby, Bir-



mingham, or Shrewsbury, may breakfast with his own family on the Monday, and breakfast in Dublin on the Tuesday. All who live within the radius, of which these towns describe the extremity, and Liverpool is the focus, comprising a population of from three to four millions of people, engaged in all the principal manufactures of the country, have the same facilities every day, by established public conveyances, which perform their operations with almost the punctuality of a mail coach, and the prices of which will become cheaper every succeeding year. This is all very well, to allow the English to pass from island to island, with great expedition, and at a small charge. But the Irish have the same facilities for reaching England; and whoever regards that circumstance attentively, and does not meditate upon the possible results with anxiety, shows a culpable disregard of the circumstances which are operating to produce extended misery, or a callous indifference to the well-being of the people. The condition of the poor in Ireland is the one great subject of painful interest to all political observers. If the sea did not separate us, we should have such an inundation of Irish labourers, as would, by reducing wages in England, speedily destroy all that remains of old English comforts, which our labourers have possessed for centuries. We are one and the same people; therefore, the Irish have not only a right to bring their labour to our market, but, as they speak the same language, one of the great obstructions to the equalizing of the wages of labour in different countries, is also removed. The steam boats pass between the nearest parts of the two islands in

a few hours. The price on deck, between Dublin and Liverpool, (not one of the shortest passages,) is five shillings, subject to reduction by special contract. There are as many steam boats established, as could bring over, in their present regulated courses, a million of persons in a year, from Ireland to Great Britain. It is scarcely straining a figure, to say that there is a bridge erected between the two countries, and that the two islands are become one.

If this state of things be not duly considered, and wisely dealt with, consequences, infinitely more important, will result from this union, during the ensuing twenty-five years, than those which have resulted during the last twenty-five years, from an *act of parliament union*. Labour is, in Ireland, on the average, about one half of the price that it is in England. Now mark the consequences, and these may be best indicated by a reference to existing practical results. I know, not from hearsay, but from personal examination, parts of England, situated from forty to a hundred miles from the coast, where Irish families, in great numbers, come and fix themselves, *live and save money, upon weekly wages so small, as to drive English families, consisting of the same number of persons, engaged in the same business, in the same places, to the parish rates for succour*. The effect is partial at present, and takes place principally in mines, manufactures, and in the traffic of large towns. Habits are not so easily broken in upon amongst farmers, as amongst manufacturers and traders. There is something, too, in the minds of the English cultivators of the soil, that repels the thought of introducing Irish



labourers, except during the harvest, to mix with their own. They have, in general, plenty of labourers near at hand, who must be supported; and they have still, in many parts, property enough left to place them above the pressing necessity of adopting the cheaper labour of strangers for that of their neighbours. But the cause is working, and, as sure as water flows downwards, it will, at no distant day, place England and Ireland, in respect to the wages of labour, and the condition of the working classes of the people, nearly upon a level. Will, or can our rulers raise Ireland to the condition of England? Or, must England sink to to the miserable state of Ireland?!! Whatever can be done, must be immediately put into operation, to improve the state of the working classes of Ireland *at home*; and some circumstances are now going on, not proceeding from acts of the government, but from that principle of approximating, in effect, places, persons, and things, before alluded to, which have this tendency. When the rail roads are completed; when the perfect facility of communication by steam boats is established with other states, of which the system is capable; when the trade in corn is free, and money can circulate as heretofore, in aid of the operations of industry; I see no impediment to our rendering, by means of labour, in Ireland, goods as cheap to the continental markets, as the Silesians or other manufacturers can render them.

Emigration must not be despised, notwithstanding the censure thrown upon it by some acute observers; but it must be conducted at the charge of the Irish landowners and capitalists; and it will not be allowed

to proceed long upon so extravagant an estimate of expense, as that which forms the basis of the present calculations. If I err not in the view that I take of this part of the subject, other and very important consequences may be made to result from a well organized system of emigration, besides that of merely carrying the surplus number of human beings from Ireland; and the expense of accomplishing the object may be prodigiously reduced. Emigration upon an extended scale, and the greater the scale the greater the benefit, not only to Ireland, by taking off her spare population, but in other matters also, which may be most advantageously connected with it. This will counteract the tendency (as regards contact with Ireland) of steam navigation to injure England. And every ardent friend of his country must pray that no time may be lost in adopting means to ward off the consequences of a more intimate communion, until Ireland shall become so changed, as to render a closer fellowship not a measure of inevitable debasement to England.

I have briefly alluded to this subject, because it appears to me that mighty changes in the affairs of men, and in the political state of the nation, result from causes which do not attract the due observation of the government. It is only when the aggregate effect has astonished us, that we begin to look at the principle, and to examine the manner of its operation. The system of banking and the steam engine have effected wonderful changes in our political condition; and their power, and tendency to produce other important changes, ought to be well understood.

I do not entirely despair of being able to obtain your



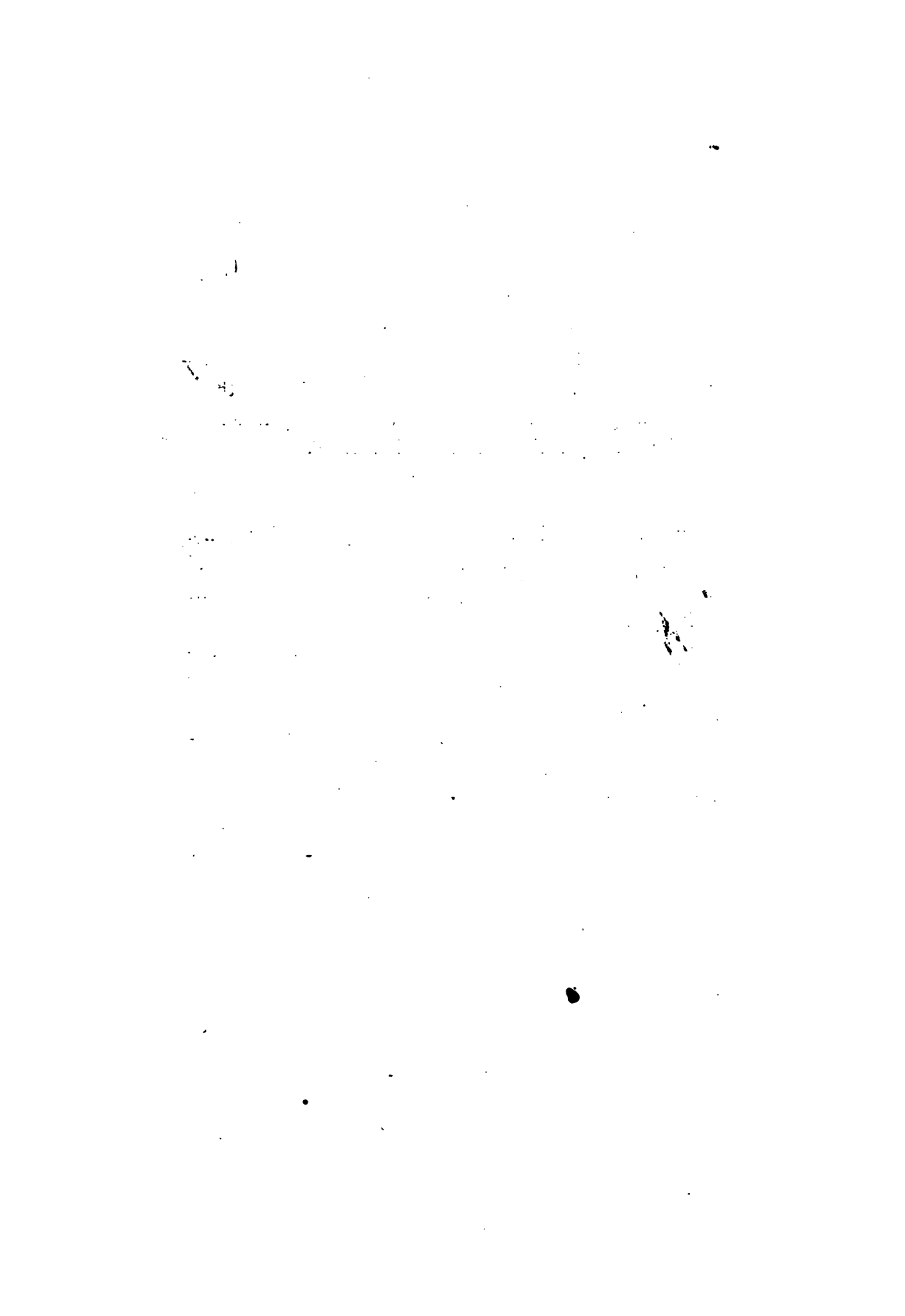
attention to the matters upon which I have taken the liberty to address you, because I have observed that subjects of this nature do, on occasions, deeply interest your mind. The striking and eloquent manner in which you have noticed the effects of steam navigation, is a remarkable proof, that, notwithstanding the time claimed by the important considerations of state, no opportunity escapes you of contemplating those astonishing changes that are taking place, by means of the humble operations of industrious life \*.

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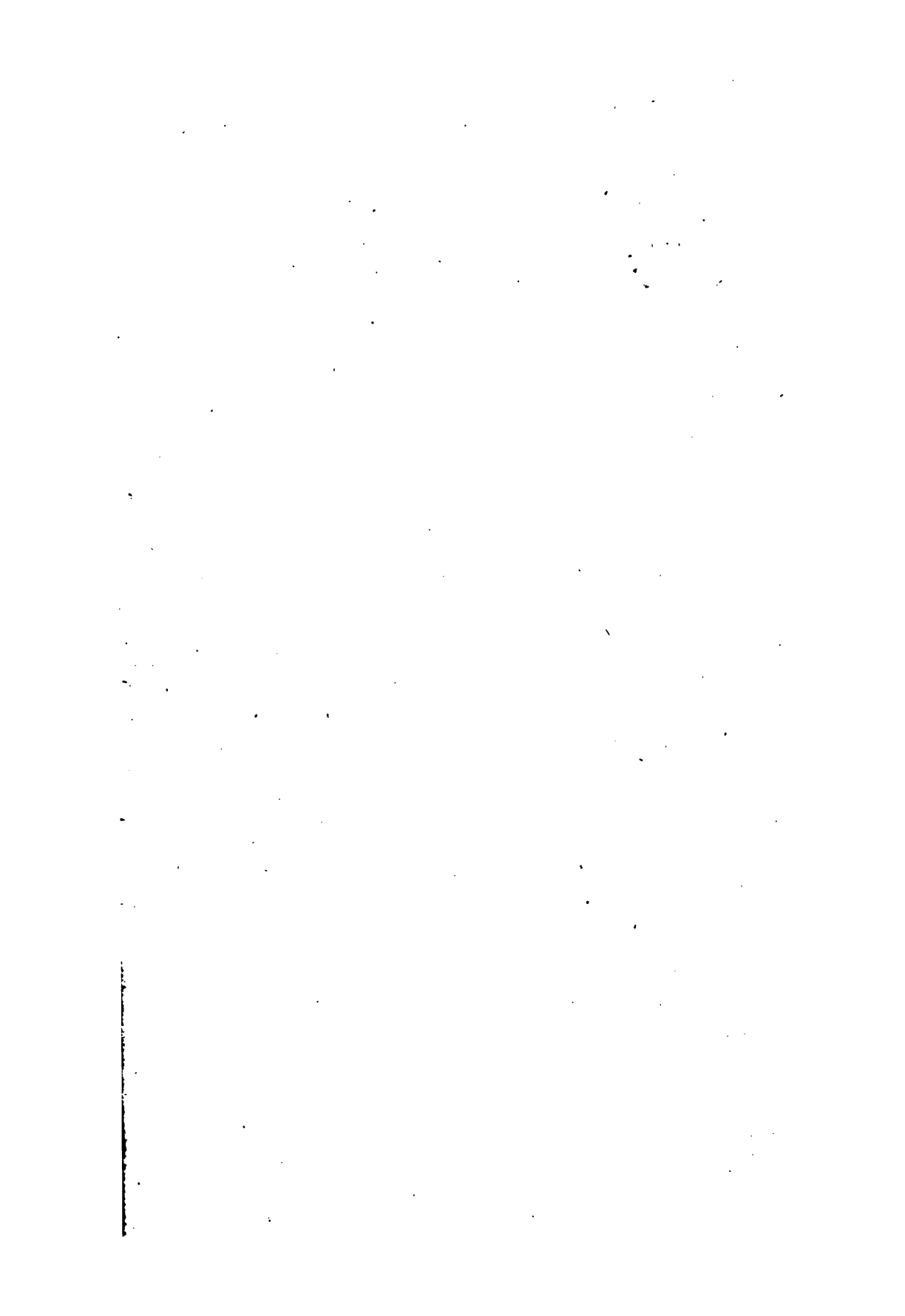
“ \* What should we think of that philosopher, who, in writing, at the present day, a treatise upon naval architecture and the theory of navigation, should omit wholly from his calculation that new and mighty power—new, at least, in the application of its might—which walks the water, like a giant rejoicing in his course; stemming alike the tempest and the tide; accelerating intercourse; shortening distances; creating, as it were, unexpected neighbourhoods and new combinations of social and commercial relations; and giving to the fickleness of winds, and the faithlessness of waves, the certainty and steadiness of a highway upon the land.”

*Mr. Canning's Speeches at Liverpool.*

THE END.













1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for transparency and accountability, particularly in financial matters. The text notes that without reliable records, it is difficult to track progress, identify issues, and make informed decisions.

2. The second part of the document outlines the various methods and tools used for data collection and analysis. It mentions the use of surveys, interviews, and focus groups to gather qualitative data, as well as the application of statistical software for quantitative analysis. The importance of ensuring the reliability and validity of the data is stressed throughout this section.

3. The third part of the document describes the process of data interpretation and the challenges involved. It highlights that raw data often needs to be cleaned and organized before it can be meaningfully analyzed. The text also discusses the potential for bias in data interpretation and the need for a clear, objective approach to drawing conclusions.

4. The fourth part of the document provides a detailed overview of the findings from the study. It presents the results of the data analysis in a structured manner, using tables and charts to illustrate key trends and patterns. The findings are discussed in the context of the research objectives and existing literature in the field.

5. The final part of the document offers conclusions and recommendations based on the study's findings. It suggests areas for further research and provides practical advice for implementing the findings in real-world settings. The text concludes by reiterating the importance of ongoing monitoring and evaluation to ensure the effectiveness of the interventions.





